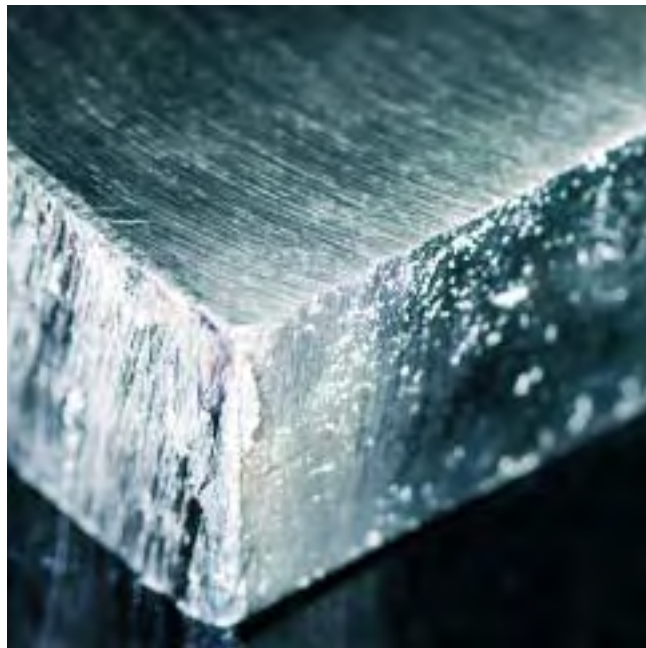


BUSINESS REVIEW



Top Left: Active pharmaceutical ingredients manufacturing at Macfarlan Smith, UK.

Top Right: Platinum bar.

Below: New capacity in Royston, UK to manufacture catalysed diesel particulate filters.



Group Activities

Johnson Matthey is a global speciality chemicals company. We serve our customer base from operations in over 30 countries and employ around 8,700 people worldwide. The group is organised into three global divisions: Environmental Technologies; Precious Metal Products and Fine Chemicals & Catalysts.

Environmental Technologies is a global supplier of catalysts and related technologies for applications which benefit the environment such as pollution control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy. The division comprises three businesses:

- Emission Control Technologies is a global leader in catalytic systems for emissions control from vehicles and industrial processes.
- Process Technologies serves the world's chemical, oil, gas and refining industries. It manufactures catalysts, provides specialist services and designs and licenses chemical processes.
- Johnson Matthey Fuel Cells develops and manufactures catalysts and catalysed components for a wide range of clean energy fuel cell systems.

Precious Metal Products' activities comprise the marketing, distribution, refining and recycling of platinum group metals, fabrication of products using precious metals and related materials, and refining of gold and silver.

Fine Chemicals & Catalysts is a global supplier of fine chemicals, catalysts and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and research institutes.

Strategy and Objectives

Johnson Matthey's strategic intent is to achieve consistent growth in earnings by concentrating on the development of high added value products and services in areas where our expertise provides a competitive edge, particularly in catalysis, precious metals, fine chemicals and process technology.

The group's financial objectives are:

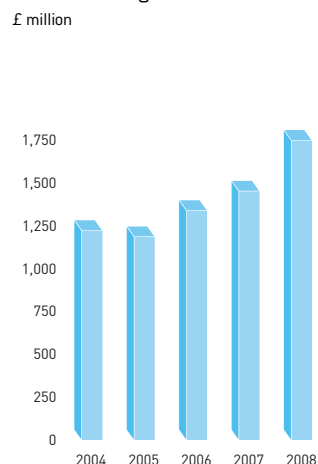
- To continue to achieve consistent and above average growth in underlying earnings per share.
- To grow dividends in line with underlying earnings while maintaining dividend cover at about two and a half times to ensure sufficient funds are retained to support organic growth.
- To deliver a return on investment above the group's cost of capital. We estimate Johnson Matthey's post tax cost of capital is currently about 8% (11.3% pre-tax). In addition we have a long run pre-tax target rate for the group of 20%.

The board's strategies to achieve these financial objectives are:

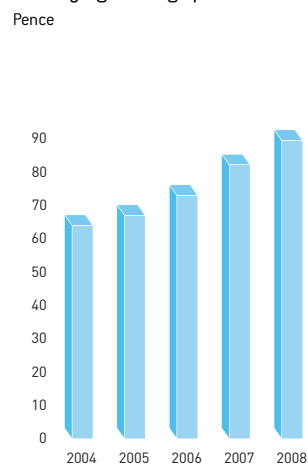
- Focus the business on the group's core skills in catalysis, precious metals, fine chemicals and process technology.
- Position the group in growth markets where our core skills are applicable. Catalysis is a key technology in many developing markets for the 21st century, particularly those concerned with protecting the environment such as in emission control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy. Environmental Technologies Division, which combines our skills in catalysts and process technology, is well positioned to serve these emerging markets. Catalysis is also important in the manufacture of fine chemicals where Johnson Matthey has a number of strong niche market positions. Johnson Matthey's expertise and international strength in precious metals, particularly platinum group metals, was the starting point for many of our businesses. The market for platinum has grown steadily for many decades and demand is expected to grow significantly over the next ten years.
- Differentiate ourselves by using our world class technology. We will continue to invest significantly in research and development to develop new products and manufacturing processes. Technology is the key driver for most of our businesses and Johnson Matthey has a strong science base with technical centres located in all our major markets.
- Maintain strong relationships with our major customers, suppliers, government bodies and other stakeholders by investing resources on joint projects to ensure the group is well positioned for future market development.
- Continue to invest in Johnson Matthey's employees to ensure they are well trained, motivated and encouraged to meet the challenges of the future.
- Ensure the business is run in a sustainable way by using resources efficiently, minimising waste in our manufacturing processes and designing new products that help our customers to be more sustainable and competitive.

BUSINESS REVIEW

Sales Excluding Precious Metals



Underlying Earnings per Share



Return on Invested Capital



Key Performance Indicators

The group uses a range of key performance indicators (KPIs) to monitor performance over time in line with the financial objectives and strategy summarised in the previous section. The principal KPIs, together with the group's performance against them in 2007/08, are described below:

Financial

Underlying earnings per share growth and return on invested capital are two of the principal financial KPIs we use to measure the group's performance. In calculating these measures we exclude the following items which can distort the trend in measuring results:

- Profits and losses on disposal of businesses.
- Amortisation of intangible assets arising on acquisition of businesses (acquired intangibles).
- Major restructuring or impairment charges.
- Major tax items arising from changes in legislation.

In 2007/08 the only adjustment in calculating underlying earnings per share and return on invested capital was amortisation of acquired intangibles, mainly arising on the acquisition of Argillon Group in February 2008. Underlying earnings per share were 89.5 pence, 9% up on 2006/07. Total earnings per share were 88.5 pence, 9% below 2006/07 which included the profit on sale of Ceramics Division. Over the five years from 2003/04, underlying earnings per share have grown at a compound annual rate of 9% p.a. The group's five year financial record is shown on page 104.

In accordance with our policy of increasing dividends in line with earnings, the board is recommending a final dividend

of 26.0 pence taking the total for the year to 36.6 pence, a 9% increase on 2006/07. Over the last five years dividends have also grown at a compound annual rate of 9%, in line with earnings.

We define return on invested capital (ROIC) for the group as underlying operating profit divided by average capital employed (equity plus net debt). ROIC for individual divisions is calculated using average segment assets minus average segment liabilities as the denominator.

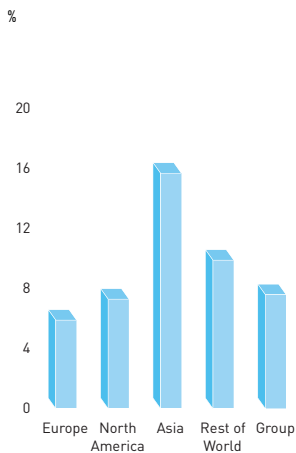
In 2007/08 the group's return on invested capital increased by 0.9% to 18.5%, well ahead of our long run pre-tax cost of capital, which we estimate to be 11.3% on a pre-tax basis. Over the five years from 2003/04, the group's ROIC has increased by 2.3%. In 2007/08 Precious Metal Products Division achieved a return of 54.3%, well ahead of the group's target of 20%. Environmental Technologies Division and Fine Chemicals & Catalysts Division achieved returns between our cost of capital and the 20% target of 15.2% and 13.9% respectively.

In measuring sales growth and return on sales we focus on sales excluding the value of precious metals. Total revenue can be distorted by trading activity as well as fluctuations in precious metal prices and do not provide a good guide to underlying growth or profitability. As it happens in 2007/08 both revenue (£7.5 billion) and sales excluding precious metals (£1.8 billion) grew at similar rates (22% and 20% respectively). Over five years sales excluding precious metals have grown by 9% p.a. despite the sale of Ceramics Division.

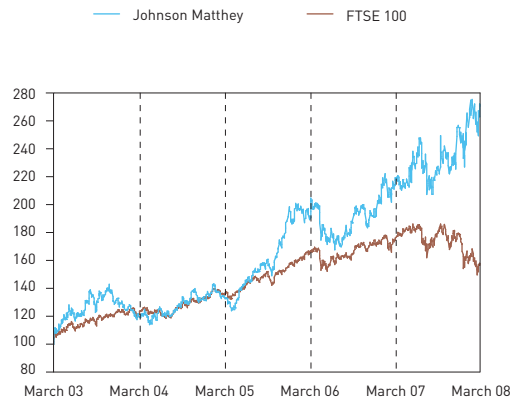
Johnson Matthey is a global business with operations in many countries around the world which report in different currencies. We report sales and operating profit translated both at actual exchange rates and at constant rates (translating last year's results at this year's rates) to measure underlying growth. We also monitor several key cash flow and capital ratios both for the group and individual divisions. More details of financial KPIs are given in the Financial Review on pages 10 to 13 and Operations on pages 15 to 21.

Voluntary Employee Turnover by Region

For calendar year 2007 (continuing businesses)



Johnson Matthey Share Price Five Year Performance versus FTSE 100



Market Shares

One measure we use to monitor the commercial performance of our businesses is market share. We aim to achieve a leading position (usually number one or two) in the global markets in which we operate. In Emission Control Technologies we estimate we have a 31% share of the available market (excluding in house manufacture by car companies) for light duty catalysts. Our two major competitors have similar shares with the remaining 5% of the market supplied by smaller competitors (mainly in China). In the new market for heavy duty diesel catalysts to original equipment manufacturers Johnson Matthey is the market leader with a share in excess of 45%.

The market for sales of platinum group metals (pgms) to end customers is more fragmented and precise shares are more difficult to estimate. Johnson Matthey is the global market leader. We are also the leader in fabricated pgm products for the industrial market with a worldwide share of about a third.

In Process Technologies and Fine Chemicals & Catalysts we sell a wide range of products into niche markets. Johnson Matthey is the market leader in syngas catalysts used in the manufacture of ammonia, methanol and hydrogen from hydrocarbon feedstocks. We are also the leader in the available market for catalysts used in pharmaceutical production.

Research and Development (R&D)

We monitor progress on all our R&D projects on a regular basis against individual milestones. One measure of ultimate success is the proportion of new products in our sales launched in the last four years as a result of R&D activity. Most of our R&D is concentrated in Environmental Technologies Division. We estimate that about 70% of the division's sales are for products introduced in the last four years.

Employees

Our employees are our most valuable resource. We are committed to recruiting high calibre employees and providing them with the information, training and working environment they need to perform at the highest standards. Johnson Matthey has a relatively low voluntary staff turnover (7.6% in calendar year 2007 compared with 7.5% in 2006) with many employees staying with the company for the whole of their careers. More details of the group's training and employment policies are given on page 33.

Health and Safety

We monitor health and safety performance very closely across all our sites. We collect data on near misses as well as actual accidents using an electronic AirsWeb system. Over the last five years the rate of greater than three day accidents has reduced from 9.1 per 1,000 employees to 2.7 per 1,000 in 2007/08. Further KPIs relating to our health and safety performance are set out on page 32 and in our Sustainability Report on the company's website at www.matthey.com.

Environment

Johnson Matthey is committed to running its business in a sustainable way which includes minimising the impact of our own activities on the environment. On pages 30 to 32 we set out the company's five year record for total acid gas emissions, total global warming potential, energy consumption, water consumption and total waste. Many of Johnson Matthey's products and technologies provide a significant positive benefit to the environment and details of some these are described in our Sustainability Report on the company's website. For example, the amount of pollutants removed from the atmosphere by the company's autocatalyst products since their introduction in 1974 now amounts to over four billion tonnes.

BUSINESS REVIEW

John Sheldrick
Group Finance Director



Autocatalyst manufacturing facility.

Financial Review

Introduction

Johnson Matthey achieved very good results in 2007/08, with revenue well ahead of last year as a result of strong underlying volume growth and rising precious metal prices. Sales excluding the value of precious metals increased by 20% with all three divisions achieving good growth. Demand for catalysts was strong with expanding sales of diesel particulate filters and a full year's sales of heavy duty diesel (HDD) catalysts to original equipment manufacturers in Europe and North America. The group also achieved strong growth in Asia, particularly in China, both for emission control catalysts and process catalysts.

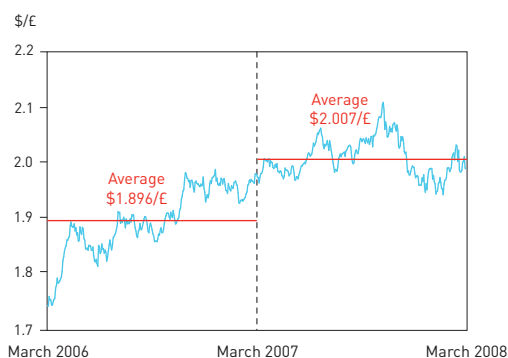
On 6th February 2008 we completed the acquisition of Argillon Group for €214 million. Argillon is an international group specialising in catalysts and advanced ceramic materials, with leading technology for the control of emissions of oxides of nitrogen (NO_x). Within its portfolio Argillon has non catalyst businesses manufacturing ceramic insulators and alumina products which Johnson Matthey has offered for sale. Under International Financial Reporting Standards (IFRS) these businesses are classified as "assets held for sale" and their results shown in discontinued businesses below profit after tax in the income statement.

Also under IFRS we are required to capitalise certain intangible assets upon acquisition such as the fair value of customer relationships, technology and trademarks and then amortise their value through the income statement. In presenting the group's results we have focused on operating profit before amortisation of these "acquired intangibles" which we believe provides a better guide to the underlying performance of the group.

Operating Profit for the Continuing Businesses (before amortisation of acquired intangibles)

	Year to 31st March		2007 at 2008		change %
	2008 £ million	2007 £ million	change %	exchange rates £ million	
Environmental Technologies	147.3	122.9	+20	121.9	+21
Precious Metal Products	102.1	85.3	+20	84.6	+21
Fine Chemicals & Catalysts	67.1	64.2	+5	63.4	+6
Corporate	(19.7)	(17.2)		(17.3)	
Operating profit	296.8	255.2	+16	252.6	+17

US Dollar Exchange Rates



Sales

Revenue increased by 22% to £7.5 billion. Precious metal prices grew strongly over the year which boosted sales in both Environmental Technologies Division and Precious Metal Products Division. Sales excluding the value of precious metals rose by 20% to £1,750 million reflecting good underlying volume growth and increased non precious metal material costs, some of which are a pass through for Johnson Matthey.

Environmental Technologies Division grew its sales excluding precious metals by 27% to £1,140 million. Emission Control Technologies (ECT) provided most of the growth with sales up 32%. Sales excluding precious metals of HDD catalysts to original equipment manufacturers trebled to £159 million as new emission standards applied for the full year. Sales of light duty products were also well ahead with good growth in diesel particulate filters in Europe and autocatalysts in Asia. Process Technologies had a good year with sales excluding precious metals up 10%.

Precious Metal Products Division's sales excluding precious metals increased by 6% to £307 million with good growth in the manufacturing businesses. Fine Chemicals & Catalysts sales excluding precious metals increased by 13% to £303 million. The division achieved good growth in Asia and sales were also boosted by the high price of nickel.

Return on Sales excluding Precious Metals

	Sales excluding precious metals		Return on sales excluding precious metals ¹	
	2008 £ million	2007 £ million	2008 %	2007 %
Environmental Technologies	1,140	896	12.9	13.7
Precious Metal Products	307	290	33.2	29.4
Fine Chemicals & Catalysts	303	268	22.1	24.0
Continuing businesses	1,750	1,454	17.0	17.5

¹ Operating profit before amortisation of acquired intangibles divided by sales excluding precious metals.

We measure return on sales as operating profit before amortisation of acquired intangibles divided by sales excluding precious metals. Return on sales for the group fell by 0.5% to 17.0% in 2007/08 as a result of increased material costs.

ECT's return on sales has fallen in each of the last two years as a result of the rapid growth in sales of new products, particularly filters. The uncoated filter substrates are currently very expensive. The price is agreed between the car company and the substrate supplier and the cost is a pass through for Johnson Matthey. Filter costs are now coming down and we expect ECT's return on sales to stabilise at current levels despite continued growth in these new products.

Operating Profit

Operating profit before amortisation of acquired intangibles rose by 16% to £296.8 million. Exchange translation was again adverse. The impact on individual divisions is shown in the table above.

Environmental Technologies Division had an excellent year with operating profit before amortisation of acquired intangibles up 20% at £147.3 million. Argillon, acquired in February 2008, contributed £2.9 million of this profit growth. Excluding acquisitions profits were 17% higher. ECT generated most of the growth with profits up in all three regions. More details of the division's performance are set out on pages 15 to 17.

Precious Metal Products Division also had a strong year with operating profit 20% up at £102.1 million. The division's marketing and distribution business benefited from the favourable conditions in the platinum group metal (pgm) markets with the average price of platinum rising by 20% in sterling terms. The manufacturing businesses also had a good year. Precious Metal Products Division's results are set out on pages 18 and 19.

Fine Chemicals & Catalysts Division achieved mid single digit growth in operating profit, in line with volume growth in its underlying markets, with profits 5% higher than last year (6% at constant exchange rates) at £67.1 million. The division's results are set out in more detail on pages 20 and 21.

BUSINESS REVIEW

Exchange Rates

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling. Around a quarter of the group's profits are made in North America, mainly in the USA. The average rate for the US dollar was \$2.007/£ compared with \$1.896/£ for 2006/07. Each one cent change in the average rate for the dollar has just under a £0.4 million effect on operating profit in a full year. The fall of 11 cents in the average exchange rate for the dollar in 2007/08 reduced reported group operating profit by £4.1 million. The South African rand also weakened, from R13.4/£ to R14.3/£. However, the catalysts manufactured by our South African business are ultimately for export and the benefit of a weaker rand on margins more than offsets the translational effect.

Sterling weakened against a number of other currencies, particularly the euro, which partly offset the translation loss on the US dollar. Overall, excluding the rand, exchange translation reduced group profits by £2.6 million compared with 2006/07.

Interest

The group's net finance costs rose by £3.5 million to £30.3 million as a result of higher average borrowings, partly offset by the benefit of lower US dollar interest rates towards the end of the year. Average borrowings were higher than last year when net debt fell towards the end of the year following the sale of Ceramics Division. In 2007/08 net debt increased by £245.6 million with most of the rise occurring in February 2008 following the acquisition of Argillon Group. Interest rates for short term US dollar borrowing fell towards the end of the year as the US government tried to stimulate the US economy.

Profit before Tax

Profit before tax and amortisation of acquired intangibles rose by 16% to £265.4 million. After amortisation, profit before tax was also 16% up at £262.3 million. Included in profit before tax is a loss of £1.1 million in associates compared with a profit of £0.9 million last year. This relates to AGR Matthey, the Australian gold refining business in which the group has a 20% stake, which is taking a restructuring charge to reduce the cost base of its business.

Taxation

The group's tax charge for the year was £77.2 million, an increase of £12.5 million on 2006/07 reflecting the growth in profit before tax and a slightly higher overall average tax rate. The average tax rate for the continuing businesses was 29.4%, an increase of 0.8% on last year. The increase in the rate partly reflected higher taxable profits in countries where marginal tax rates are above the group average, such as Japan and the USA.

Tax paid was £71.5 million which was below tax payable and less than tax paid in 2006/07. The difference arises from timing of tax payments. We are expecting tax paid to rise again in 2008/09.

Earnings per Share

Underlying earnings per share were 9% up at 89.5 pence. The sale of the group's Ceramics Division in February 2007 and a slightly

higher average tax rate have had the effect of slowing the growth in earnings per share in 2007/08 compared with growth in profit before tax. Total earnings per share were 88.5 pence, 9% below 2006/07 which included the profit on sale of Ceramics Division.

Dividend

The board is recommending to shareholders a final dividend of 26.0 pence, making a total dividend for the year of 36.6 pence, an increase of 9%, which is in line with the growth in underlying earnings per share. The dividend would be covered 2.45 times by underlying earnings per share.

Pensions

The surplus on the group's UK pension schemes increased by £19.6 million to £65.1 million on an IFRS basis at 31st March 2008. This increase was attributable to the rise in the discount rate from 5.4% to 6.5% which reflected market rates applying at 31st March 2008. Long term inflation expectations have also risen, from 3.1% p.a. to 3.5% p.a., giving an increase in "real" interest rates (i.e. inflation adjusted) from 2.3% to 3.0% which has resulted in a reduction in the actuarial valuation of the pension scheme's liabilities under IFRS.

Worldwide, including provisions for the group's post-retirement healthcare schemes, the group had a net surplus of £17.2 million on employee benefit obligations at 31st March 2008 compared with £0.9 million at 31st March 2007.

Return on Invested Capital

The group's return on invested capital (ROIC) increased by 0.9% to 18.5%, despite high capital expenditure to support future growth and the acquisition of Argillon in February 2008. On a post tax basis the group's return was 13.1% which is 5.1% above our estimated cost of capital of 8%.

Our long run group target for ROIC on a pre-tax basis is 20% and we made good progress in 2007/08 towards that goal. All our divisions were comfortably above our pre-tax cost of capital of 11.3%. Precious Metal Products Division was also ahead of the 20% target with a return of 54.3%. Environmental Technologies Division's and Fine Chemicals & Catalysts Division's ROICs were 15.2% and 13.9% respectively.

Return on Invested Capital

	Average invested capital ¹ 2008 £ million	Return on invested capital ² 2008 %
Environmental Technologies	970	15.2
Precious Metal Products	188	54.3
Fine Chemicals & Catalysts	483	13.9
Corporate / other	(34)	n/a
Total group	1,607	18.5

¹ Average of opening and closing segment assets less segment liabilities as shown in note 1 on the accounts on pages 62 and 63. For the group, the average of opening and closing equity plus net debt.

² Operating profit before amortisation of acquired intangibles divided by average invested capital.

Cash Flow

Johnson Matthey had a net cash outflow of £239.0 million in 2007/08. After taking into account the impact of exchange translation on foreign currency borrowings and debt acquired with subsidiaries the group's net debt increased by £245.6 million to £610.4 million.

The group spent £159.9 million on acquisitions and disposals in the year and a net £44.6 million on share buy-backs. Excluding these items the group had a free cash outflow of £34.5 million.

This outflow was the result of major investments in the year on capital expenditure and working capital to support the growth of Environmental Technologies Division, particularly Emission Control Technologies. In addition, working capital grew as a result of the sharp rise in precious metal prices towards the end of the financial year which affected both inventories and receivables. In total, the cash outflow on working capital was £90.5 million, although the ratio of working capital to revenue fell once again.

Change in Net Debt

	2008 £ million	2007 £ million
Cash flow from operating activities	210.7	159.1
Net finance costs / dividends	(101.6)	(91.9)
Capex / asset sales	(143.6)	(121.5)
Free cash flow	(34.5)	(54.3)
Acquisitions / disposals	(159.9)	118.5
Shares bought	(44.6)	(50.4)
Net cash flow	(239.0)	13.8
Debt (acquired) / disposed with subsidiaries	(3.6)	19.1
Exchange on net debt	(3.0)	14.3
Change in net debt	(245.6)	47.2

Capital expenditure for the year was £145.0 million which was 1.9 times depreciation (excluding amortisation of acquired intangibles). Most of the investment was focused on Environmental Technologies Division where capex was 2.4 times depreciation.

Capital Expenditure to Depreciation

	Year to 31st March 2008		
	Capital expenditure £ million	Depreciation* £ million	Capex / depreciation (times)
Environmental Technologies	105.8	44.5	2.4
Precious Metal Products	12.0	13.5	0.9
Fine Chemicals & Catalysts	25.0	17.3	1.4
Corporate	2.2	2.0	1.1
Total group	145.0	77.3	1.9

* Excludes amortisation of acquired intangibles.

Environmental Technologies spent £105.8 million in 2007/08 with major investments in new capacity. Emission Control Technologies completed three new factories in the year: in South Korea; the Russian Federation; and Royston, UK. Two new factories are now under construction in Macedonia and Pennsylvania, USA to manufacture diesel catalysts. Additional capacity is being installed in India, China and Japan. Process Technologies is investing in additional capacity in Clitheroe, UK to manufacture the latest generation of synthesis gas catalysts.

Fine Chemicals & Catalysts Division increased its capital expenditure in the year to 1.4 times depreciation with the investment above depreciation focused on Catalysts and Chemicals, where a new factory was completed in Shanghai, China, and on Research Chemicals for a new facility in Germany.

Capital Structure

Johnson Matthey has excellent growth prospects in its major markets. The board's policy is to maintain a strong balance sheet to ensure that the group always has sufficient resources to be able to invest in future growth. We have a long term target range for gearing (net debt / equity) of 50% to 60% although in any given year gearing may fall outside this range depending on future plans.

In February 2007 we sold Ceramics Division for £146.0 million. Gearing fell to 33.8% at the end of the 2006/07 financial year. In the first half of 2007/08 the group purchased 2.4 million shares into treasury for £39.1 million taking the total number of shares acquired over two years to 6 million at a total cost of £91.7 million (an average price of £15.28 a share). In 2007/08 a further £5.5 million was spent on purchasing shares for the group's employee share ownership trust (net of proceeds of option exercises). On 10th December we announced we had reached agreement to acquire Argillon Group for €214 million. That acquisition took us over the 50% gearing threshold and we suspended the share buy-back programme. With continued heavy investment in capital expenditure and working capital, net debt increased by £245.6 million to £610.4 million and gearing rose to 52.6% at 31st March 2008. Despite the increased investment, return on invested capital for the group improved.

In 2008/09 we plan to spend about 1.8 times depreciation on capital expenditure, with further increases in working capital likely to be needed to support sales growth. We are also planning to sell the Insulators and Alumina businesses acquired with Argillon and expect to reinvest the proceeds in further bolt-on acquisitions.

Borrowings

	31st March 2008		31st March 2007	
	£ million	%	£ million	%
Five to ten years	256.5	36	300.2	69
Two to five years	261.1	37	109.7	25
One to two years	72.9	10	0.6	—
Within one year	122.0	17	27.5	6
Gross borrowings (net of swaps)	712.5	100	438.0	100
Less: cash and deposits	102.1		73.2	
Net debt	610.4		364.8	

The increase in borrowings in 2007/08 was mainly funded out of the group's committed bank facilities. At 31st March 2007, following the receipt of the proceeds of sale of Ceramics Division, we had only drawn £15.4 million under these facilities. At 31st March 2008 drawings had risen to £230.7 million out of total committed facilities of £310.0 million. To increase our headroom we have recently agreed a further £100 million long term loan facility from the European Investment Bank which is provided to support the group's investment in research and development.

BUSINESS REVIEW



Left: Platinum rings.

Above: Catalysts research and development.

Below: Catalysed diesel particulate filter manufacturing, Royston, UK.



Operations – Environmental Technologies Division

	Year to 31st March			%
	2008	2007	%	at constant
	£ million	£ million	change	rates
Revenue	2,290	1,864	+23	+24
Sales excluding precious metals	1,140	896	+27	+29
Operating profit*	147.3	122.9	+20	+21

* Before amortisation of acquired intangibles

Description of the Business

Environmental Technologies Division is a global supplier of catalysts and related technologies for applications which benefit the environment such as pollution control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy. The division consists of three global businesses:

Emission Control Technologies (ECT)

ECT comprises Johnson Matthey's global autocatalyst, heavy duty diesel and stationary source emissions control businesses. We are a world leading manufacturer of catalysts for vehicle exhaust emission control and a leader in catalyst systems for the reduction of volatile organic compound emissions from industrial processes. Manufacturing takes place in the UK, Germany, Belgium, Russia, USA, Mexico, Argentina, South Africa, Japan, Malaysia, India, China and South Korea. R&D facilities are in the USA, UK, Germany, Sweden, Japan, South Korea and Brazil.

Process Technologies

Process Technologies manufactures process catalysts for the syngas, methanol, ammonia, hydrogen, gas / coal to products, oil refineries and gas processing industries. Davy Process Technology develops chemical process technologies and licenses them to customers in the oil, gas and petrochemical industries. Our Tracerco business is an industrial leader in specialist technology for the diagnostics, measurement and analysis of process plant conditions across the hydrocarbon chain. Process Technologies is a global business with manufacturing sites in the UK, India and China, supported by several UK based technology centres and technical offices in key centres around the world.

Fuel Cells

Johnson Matthey is a world leader in catalysts and catalysed components for fuel cells.

Key Statistics

Return on sales excluding precious metals	12.9%
Return on invested capital (ROIC)	15.2%
Capital expenditure	£105.8m
Capex / depreciation	2.4 times
Average invested capital	£970m
Employees	4,730

Performance in 2007/08

Our new Environmental Technologies Division achieved strong growth in the year. Revenue rose by 23% to £2,290 million; sales excluding precious metals were 27% up at £1,140 million; and underlying operating profit (before amortisation of acquired intangibles) increased by 20% to £147.3 million. Translated at constant exchange rates, sales excluding precious metals increased by 29% and underlying operating profit was 21% higher.

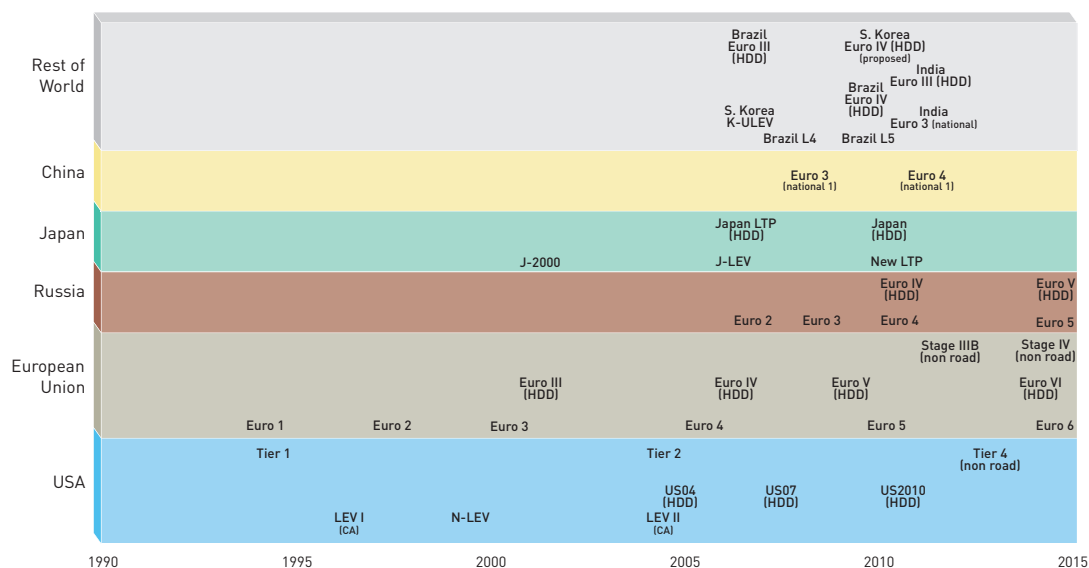
Emission Control Technologies

Emission Control Technologies' sales excluding precious metals grew by 32% to £903 million. Sales of heavy duty diesel (HDD) catalysts to original equipment manufacturers (OEMs) accounted for £105 million of the increase rising from £54 million in 2006/07 to £159 million in 2007/08. Sales of light duty products were also well ahead with good growth in Asia and increasing fitment of particulate filters on new diesel cars in Europe. The acquisition of Argillon added £11.4 million to sales and £2.9 million to operating profit before amortisation of acquired intangibles in the last two months of the year. Profit growth was stronger in the second half of the year than the first with the division benefiting from improved efficiencies.

Return on sales (operating profit / sales excluding precious metals) for ECT in 2007/08 was lower than in 2006/07 reflecting the change in product mix with rapid growth in products using expensive filter substrates (which are a pass through cost for Johnson Matthey). The cost of substrates for these new products is now beginning to come down. Going forward, ECT's return on sales is expected to stabilise at current levels despite the continued growth in sales of new products.

BUSINESS REVIEW

Vehicle Emissions Legislation Timeline



In Johnson Matthey's financial year to 31st March 2008 global light duty vehicle sales increased by 4.5% to 70.0 million. Production rose by 5.7% reflecting an overall increase in inventories. Around half of the growth in production came in Asia, which was 8.4% up on last year. Within Asia, sales grew by 20% in China and 12% in India. Other markets showing strong growth include South America, Eastern Europe and Russia. ECT is well represented in all these locations. Light duty vehicle sales in North America were 3.9% down in our financial year.

Estimated Light Vehicle Sales and Production

		Year to 31st March		
		2008 millions	2007 millions	change %
North America	Sales	19.6	20.4	-3.9%
	Production	14.7	15.0	-2.0%
Total Europe	Sales	22.4	21.4	+4.7%
	Production	22.3	21.2	+5.2%
Asia	Sales	17.9	16.4	+9.1%
	Production	27.0	24.9	+8.4%
Global	Sales	70.0	67.0	+4.5%
	Production	70.4	66.6	+5.7%

Source: Global Insight

We continue to see increasing demand from many of the leading car companies in Europe for diesel particulate filters (DPFs) to remove particulates from diesel exhaust emissions. Although legislation requiring such emission control devices does not come into full force in Europe until October 2010, most car manufacturers have started to fit these devices earlier. Nearly 8 million diesel cars were sold in Western Europe last year of which less than half were fitted with DPFs. Over the next two and a half years the DPF market is set to double as all new diesel cars will require fitment. In 2007/08 we constructed a new factory in Royston, UK to manufacture catalysed DPFs, doubling our existing capacity to meet the anticipated market growth.

During the year we also completed construction of a new autocatalyst manufacturing facility in the Russian Federation. This plant will produce catalysts to meet demand from both local and global car manufacturers following the introduction of

emissions legislation requiring autocatalyst fitment in Russia in the spring of 2006.

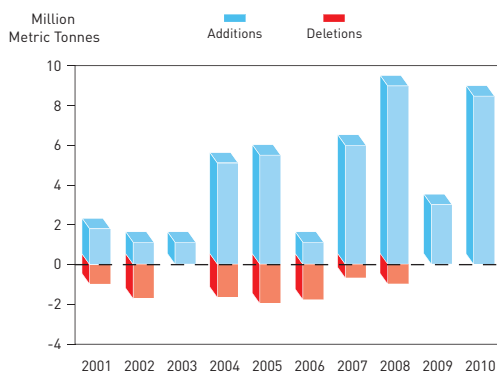
Our business in Asia continues to perform very well. Over the next decade we expect that most of the growth in world car production will take place in the Asian region. In 2007/08 we achieved strong volume growth in China, India and Japan and our operation in Malaysia also continued to perform well. Our new plant in South Korea (our fifth in the Asian region) was opened in February 2008. This new plant will manufacture catalysts for both diesel and petrol powered vehicles and will carry out research and development activities to support the rapidly growing Korean motor industry. Further capacity expansions are planned for each of our factories in China, India and Japan.

Despite continued weakness in the domestic car market, our North American business achieved good growth in the year with the introduction of new diesel products. Most of the growth was for HDD products but light duty diesel catalyst sales for pick up trucks also increased significantly.

We expect the value of the global market for HDD catalysts to grow from an estimated US \$700 million (excluding precious metals) by the end of 2008 to approximately US \$3 billion by the end of 2014. New standards are scheduled to be introduced in Europe in October 2009 and North America and Japan in 2010 which will require the use of additional catalysts. Legislation is also planned in South Korea, China, India and Brazil. In 2011 legislation will start for non road vehicles in Europe and North America. To meet this rapid growth in demand, and further expansion in the light duty diesel market, Johnson Matthey is constructing new factories in Macedonia and Pennsylvania, USA which should be operational by the end of 2009.

The acquisition of Argillon in February 2008 adds valuable technology to ECT's existing emission control capabilities for controlling oxides of nitrogen (NOx). As well as products for the HDD truck market, Argillon manufactures catalysts for power plants, industrial applications and waste incineration plants. These products have application in coal fired power stations to reduce harmful NOx emissions. This could become a major market in a few years' time as coal is increasingly used to produce electricity and people around the world become more concerned about air

Estimated Global Methanol Capacity Additions / Deletions
2001-2010



Oman Methanol Company LLC Plant, Oman.

quality. The acquisition of Argillon also adds to ECT's existing business selling NOx control systems for large stationary engines and in marine applications.

Process Technologies

Process Technologies' sales excluding precious metals grew by 10%. The Ammonia, Methanol, Oil and Gas (AMOG) business was well ahead of last year with continued strong demand for catalysts and purification materials for industries where hydrogen or synthesis gas are key intermediates. Demand for methanol catalysts was strong and, with new capacity for methanol coming on stream or under construction, the outlook for future growth of catalyst sales continues to be encouraging. In China a significant number of projects are based on utilising the country's large coal reserves and thereby reducing its reliance on expensive imported oil.

The high price of oil is encouraging the use of more catalysts for hydrogen production in oil refineries and increased sales of purification materials to remove pollutants such as sulphur and mercury. Sales of ammonia catalysts were also buoyant in 2007/08 with growth stimulated by significantly increased demand for ammonia used in the production of fertiliser.

Davy Process Technology, which develops and licenses chemical process technologies, had another good year. Major licensing contracts included oxo alcohol projects in China and India, a methylamine and choline chloride project in Thailand and a methanol licence for a coal to methanol project in the USA.

Tracerco, Process Technologies' oil services business, also achieved good growth in the year, successfully integrating Quest TruTec which was acquired in April 2006. The high oil price continued to stimulate strong demand for Tracerco's specialist diagnostic services and equipment for oil production platforms and refineries.

A major expansion programme is underway at our UK factory in Clitheroe to manufacture the latest generation of catalysts for AMOG. We are also continuing to invest heavily in research and development on new products including novel catalysts and technologies for converting gas and coal into petrochemical intermediates and fuels.

Fuel Cells

The net expense of our Fuel Cells business continues to fall as demand for its products grows. In 2007/08 the net expense fell by £0.9 million to £6.4 million. The order book for its products is strong and reflects an increasing range of applications as customers start to commercialise niche fuel cell products. Sales of membrane electrode assemblies (MEAs) grew over a broad base to companies that are commercialising fuel cells using hydrogen, methanol and natural gas as fuels.

Fuel cells fuelled directly by methanol (DMFC) sustained the growth seen last year and the number of companies supplying this type of technology also grew. Applications include portable power supplies and battery rechargers that remove the dependence of batteries on mains charging. This is useful not only in areas remote from the grid but also in situations when the time taken to recharge a battery offline affects productivity.

During the year many automotive companies were publicly robust in their view that hydrogen powered fuel cell cars were the way forward and the California Authorities have confirmed that the timescale for zero emission vehicle introduction is unchanged. The combination of fuel cells with batteries that can be recharged from the mains is attractive to car companies and legislators alike.

In a significant development, the use of natural gas powered fuel cells to provide combined heat and power to commercial buildings has progressed well and we have seen growth in sales of both catalysts and MEA components to this sector this year. Interest in these products is supported by the increasing concern over carbon dioxide emissions from buildings and the sensitivity of developers and major companies to this issue.

BUSINESS REVIEW

Operations – Precious Metal Products Division

	Year to 31st March			%
	2008	2007	%	at constant
	£ million	£ million	change	rates
Revenue	4,688	3,824	+23	+26
Sales excluding precious metals	307	290	+6	+7
Operating profit	102.1	85.3	+20	+21

Description of the Business

Precious Metal Products Division is organised into five businesses:

Platinum Marketing and Distribution

The business consists of our worldwide platinum marketing and distribution activities. Marketing is headquartered in Royston, UK with support facilities in Philadelphia, USA and Hong Kong. We are the world's leading distributor of platinum group metals (pgms) and the sole marketing agent for Anglo Platinum, the world's largest producer of platinum.

Noble Metals

Noble Metals produces a wide range of precious metal and other fabricated products for industrial and medical applications. Johnson Matthey is the market leader in pgm fabricated products for industrial applications. Manufacturing takes place in the UK and USA.

Pgm Refining and Recycling

Our Pgm Refining and Recycling business includes the recovery of pgms from spent catalysts and other secondary materials and refining primary pgms from global mining operations. We have facilities in the UK and USA.

Colour Technologies

Headquartered in the Netherlands, our Colour Technologies business manufactures black obscuration enamels and silver conductive materials for automotive glass. It also makes colours, enamels and decorative precious metal products for other glass applications such as bottles and architectural glass as well as for tableware and other ceramic applications. Manufacturing takes place in the Netherlands, USA and South Korea.

Gold and Silver

Gold and Silver comprises our gold and silver refining and bullion manufacturing operations. The business serves the world's mining industries and recycles secondary scrap material. Gold and silver refining operations are located in the USA and Canada.

Key Statistics

Return on sales excluding precious metals	33.2%
Return on invested capital (ROIC)	54.3%
Capital expenditure	£12.0m
Capex / depreciation	0.9 times
Average invested capital	£188m
Employees	1,959

Performance in 2007/08

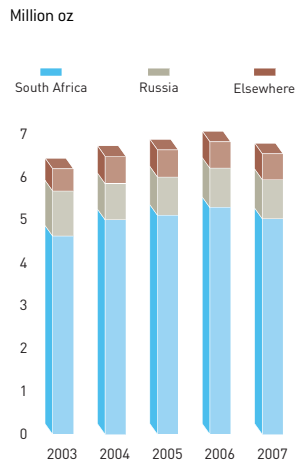
Precious Metal Products Division's revenue increased by 23% to £4,688 million, boosted by higher prices for pgms. In sterling terms the average price of platinum rose by 20%. Sales excluding the value of precious metals were 6% up at £307 million with good growth in the division's manufacturing businesses. Operating profit grew by 20% to £102.1 million. Translated at constant exchange rates, sales excluding precious metals increased by 7% and operating profit grew by 21%.

Platinum Marketing and Distribution

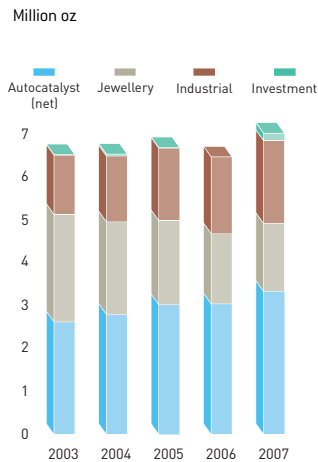
The Platinum Marketing and Distribution business achieved strong profit growth in favourable market conditions. Global demand for platinum in volume terms rose by 9% in the calendar year 2007. Demand for platinum in autocatalysts also increased by 9%, with much of the growth generated in Asia. Heavy duty diesel emission control catalysts also contributed additional demand. Off-take from jewellery manufacturers was surprisingly resilient, only slightly down in the face of the rising price of platinum, which encouraged de-stocking and recycling of old jewellery.

The price of platinum was greatly influenced by supply side concerns in 2007/08. The first nine months of the financial year saw a steadily rising price supported by a series of production problems in South Africa. In January 2008, the price began to increase dramatically as power shortages threatened to severely curtail South African platinum production. Platinum peaked at an all time high of \$2,276/oz in early March, averaging \$1,474/oz for the year. Supplies of platinum declined in 2007/08

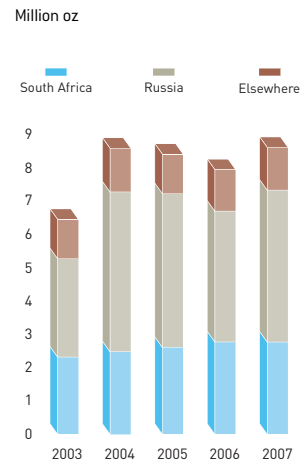
Supply of Platinum 2003-2007



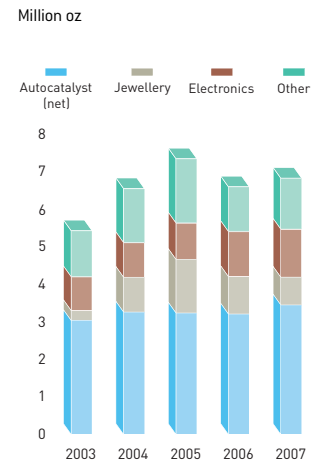
Demand for Platinum 2003-2007



Supply of Palladium 2003-2007



Demand for Palladium 2003-2007



due to these production problems in South Africa. The platinum market was therefore in significant supply / demand deficit, adding to the pressure on the price.

The palladium price also reached its peak in March 2008, touching \$588/oz. Although South Africa is only the world's second largest palladium producer, the bullish platinum sentiment arising from production problems spilled over to its sister metal. The average price for the year was \$381/oz.

Physical demand for palladium rose by 4% in 2007. Autocatalyst demand increased due to higher gasoline vehicle production outside Europe. However, demand from Chinese jewellery manufacturers fell after pipeline filling in previous years. Palladium supply was higher than in 2006 due to an increase in Russian sales, increasing the substantial surplus of supply over demand.

The price of rhodium rose sharply in 2007/08, touching a peak of \$9,425/oz in March 2008. The average price increased significantly for a third successive year to reach \$6,753/oz. Steady demand from the automotive and glass fabrication industries left little metal to be offered in the spot market. Supply showed a slight increase as South African producers sold more metal from refined rhodium stocks, but this was insufficient to eliminate a supply / demand deficit and relieve pressure on a market which was already illiquid.

After the dramatic rise last year, the price of ruthenium declined steadily in 2007/08 as demand from the electronics industry for hard disk memory storage was met by adequate supply and expanded recycling capacity.

Noble Metals

Johnson Matthey's Noble Metals business had a very good year. Our operations in the UK and USA both enjoyed good demand for high quality wires and fabricated products. Sales of catalyst gauzes for nitric acid production also grew. Sales to the medical industry from our three sites in California were slightly down as customers experienced lower demand. The market for

catalysts used in the abatement of nitrous oxide, a powerful greenhouse gas produced as a by product in the manufacture of nitric acid, has continued to develop. Early sales have been made and we have developed a strong position in this market which should generate good revenue growth in the future.

Pgm Refining and Recycling

Our Pgm Refining and Recycling business had another good year assisted by higher pgm prices and increased intakes of secondary material, especially autocatalyst scrap. Due to process improvements and better utilisation of global refining capacities the business delivered further reductions in the amount of pgms held in the refining circuit. The business continues to work closely with key customers to develop processes and refining services that will support them in being successful in their markets.

Colour Technologies

Colour Technologies achieved further good growth in 2007/08. The business maintained its reputation for innovation by commercialising several new products during the year. These included some highly chemically resistant obscuration enamels for the automotive industry and a range of environmentally friendly decorative enamels and porcelain colours. New products for the fire retardant and photovoltaic markets also achieved initial sales and these are expected to continue to grow strongly in the near future.

Gold and Silver

On 4th May 2007 we sold our small Hong Kong gold refinery to Metalor Technologies. The group's remaining gold and silver refining operations are now located in Salt Lake City, USA and Brampton, Canada. These operations had a good year, benefiting from the high gold and silver prices which stimulated good flows of primary and secondary materials.

BUSINESS REVIEW

Operations – Fine Chemicals & Catalysts Division

	Year to 31st March			% at constant rates
	2008 £ million	2007 £ million	% change	
Revenue	521	463	+13	+15
Sales excluding precious metals	303	268	+13	+15
Operating profit	67.1	64.2	+5	+6

Description of the Business

Fine Chemicals & Catalysts Division is a global supplier of fine chemicals, catalysts and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and research institutes.

Catalysts and Chemicals

The Catalysts and Chemicals business manufactures precious and base metal catalysts, fine chemicals and electrochemical products. The business sells its products to customers in the speciality chemical, pharmaceutical, fine chemical and other markets. Manufacturing takes place in the UK, USA, Germany, India and China.

Macfarlan Smith

Macfarlan Smith manufactures active pharmaceutical ingredients (APIs) and intermediate products for the pharmaceutical industry. The business specialises in APIs for controlled drugs, particularly opiate products. Most of Macfarlan Smith's customers are generic pharmaceutical companies. The business is headquartered in Edinburgh, UK.

Pharmaceutical Materials and Services

The Pharmaceutical Materials and Services business manufactures APIs and provides services to the pharmaceutical industry. The business specialises in the manufacture of platinum based anticancer APIs and controlled drugs and provides a full range of commercial scale manufacturing services for APIs to both generic and branded pharmaceutical companies. The business has operations in the USA and Ireland.

Research Chemicals

The Research Chemicals business is a globally integrated catalogue based supplier of speciality inorganic and organic chemicals. It operates under the Alfa Aesar brand name and is based in the UK, USA, Germany, China and India.

Key Statistics

Return on sales excluding precious metals	22.1%
Return on invested capital (ROIC)	13.9%
Capital expenditure	£25.0m
Capex / depreciation	1.4 times
Average invested capital	£483m
Employees	1,713

Performance in 2007/08

Our new Fine Chemicals & Catalysts Division achieved good growth in the year. Revenue increased by 13% to £521 million, sales excluding precious metals rose by 13% to £303 million and operating profit grew by 5% to £67.1 million. Translated at constant exchange rates, sales excluding precious metals increased by 15% and operating profit grew by 6%.

Return on sales (operating profit / sales excluding precious metals) was below last year but still satisfactory at 22.1%. The division achieved good growth in sales of nickel containing catalysts, where the high price of nickel boosted sales value but reduced the overall percentage return on sales.

The integration of the new division has gone well with a number of initiatives to cross sell products and services as well as to capitalise on the common, key competencies that run across the division which should support future sales growth. The majority of the speciality chemicals markets into which the division sells continue to expand and most of the division's pharmaceutical industry customers are generic drug manufacturers who are also currently enjoying good sales growth.

Catalysts and Chemicals

The Catalysts and Chemicals business performed well in the year generating about 40% of the division's sales excluding precious metals. The business experienced strong growth in the Asian region, notably in China, and in heterogeneous catalyst



Johnson Matthey's new chemical and catalyst manufacturing facility in Shanghai, China.

sales in India, supporting the rapidly expanding pharmaceutical industry there. We completed an expansion of capacity in China for platinum chemicals and catalysts and we are investing in a number of other new facilities: in China for manufacturing sponge nickel catalysts for the local market; in India to provide improved service levels; and also in Germany for catalyst production.

Our facilities in Germany achieved good volume growth with increased sales of catalysts used in the manufacture of edible oils and chemical products. Our business developing chiral ligands, which are used in highly specialised catalysts for the pharmaceutical industry, also showed good growth from a low base and offers good prospects for the future.

Macfarlan Smith

Macfarlan Smith's sales of specialist opiates, particularly oxycodone, showed good growth, more than offsetting a decline in hydromorphone as a result of increased competition. The world market for opiate drugs, which are primarily used to treat pain, continues to grow. Use of these products increases as the world's population ages and health care improves in developing economies. In addition growth is supported by the introduction of new applications and new dosage forms, particularly for specialist opiates, which enable broader, more controlled use of these medications.

Pharmaceutical Materials and Services

In North America, the division's Pharmaceutical Materials and Services business achieved steady growth in revenue. Sales of platinum based anticancer APIs were slightly below last year but sales of opiate products showed good growth. Revenue from contract research also continued to increase.

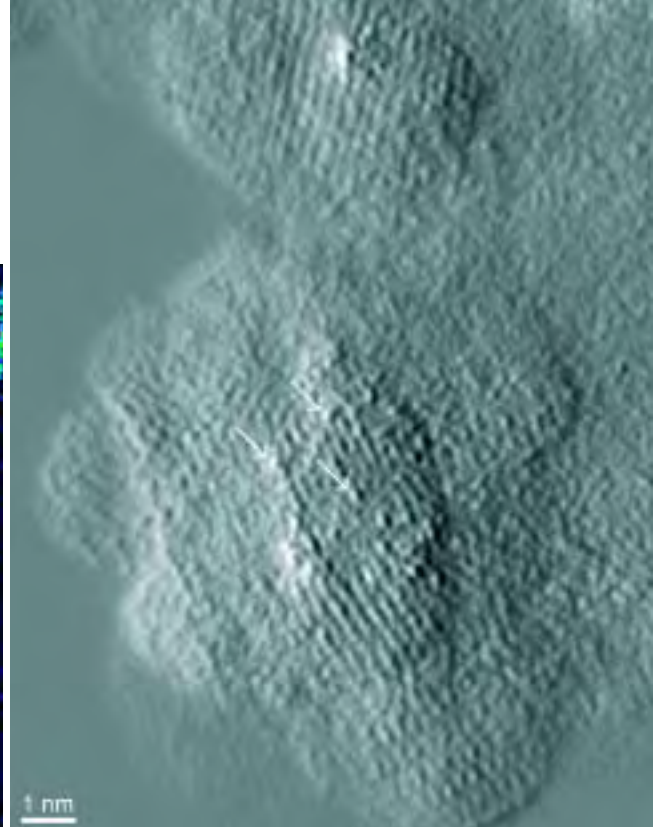
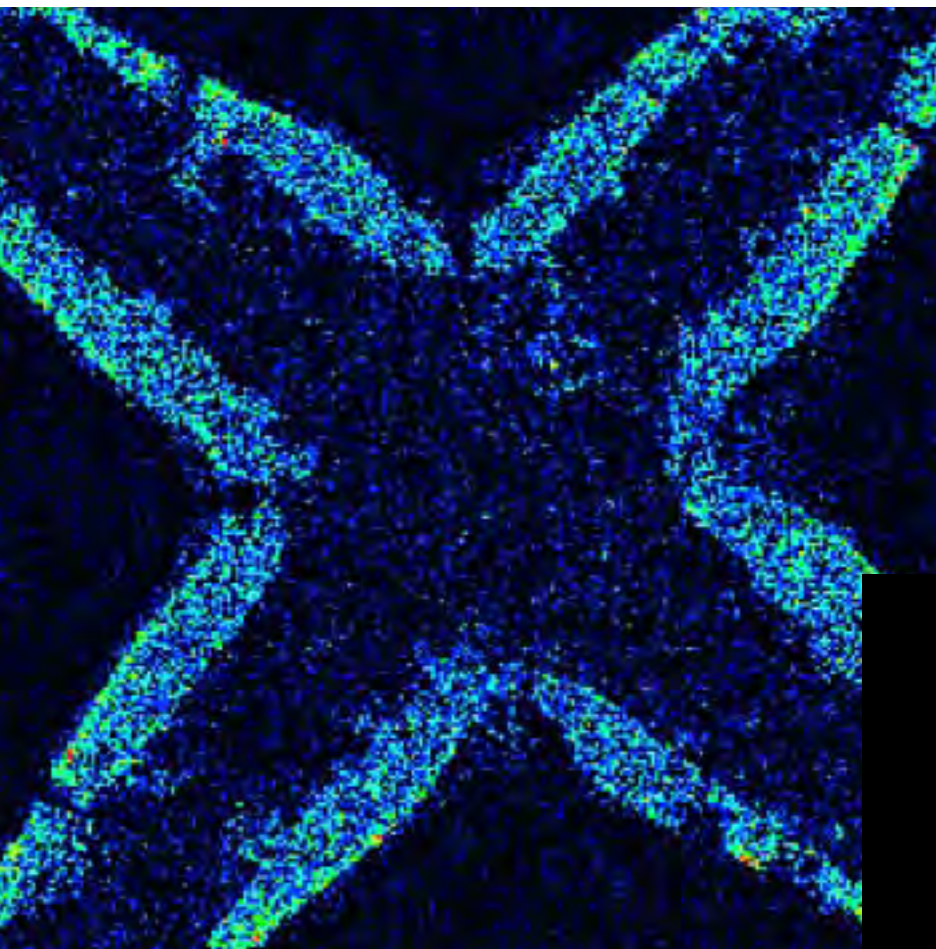
There is an opportunity for additional growth from the launch of new products, including the agreed launch in April 2009 of Barr's generic version of ADDERALL XR®. We expect to see steady growth in sales of APIs for generic controlled drugs, particularly those used in the treatment of pain which is a growing market, and in speciality niches like prostaglandins. Prostaglandin APIs manufactured by the business have been used by customers in developing new generic products and several of these are in the process of review for regulatory approval.

Research Chemicals

Research Chemicals achieved good growth in the year with increased sales in North America, Europe and Asia. The business received a good contribution from its joint venture in China, which started operation last year, achieving rapid growth from a low base. With increasing demand for its products, the business is investing in the expansion of facilities in India and Europe.

Research Chemicals' main brand name is Alfa Aesar which sells through a globally recognised catalogue. In January 2008, Alfa Aesar launched the latest edition of the catalogue. The catalogue includes 30,000 chemicals, metals and other materials of which 3,000 were new compared with the last edition. These new products included many novel fine organics, fuel cell components, pure metals and catalyst / ligand kits. Under IFRS the costs of preparing the catalogue are expensed when the catalogue is issued to customers, although the catalogue itself will last two to three years. This has the consequence of reducing the business' reported margins in the year of launch and increasing them in the following years.

BUSINESS REVIEW



Left: Electron probe microanalysis image showing the distribution of metals in an autocatalyst.

Above: SuperSTEM (scanning transmission electron microscopy) image showing the location of promoter atoms in Fischer-Tropsch catalysts.

Below: Materials preparation facilities at the Johnson Matthey Technology Centre.



Research & Development

Research and development is an integral part of Johnson Matthey's high technology businesses. One of the group's strategies is to differentiate ourselves by using our world class technology and we invest significantly in research and development to develop new products and manufacturing processes. In 2007/08 Johnson Matthey spent £73.0 million gross on R&D.

We have a group technology centre located at Sonning Common in the UK which is focused on longer term research and has a worldwide reputation for excellence in catalysis and precious metals technology. In addition we have important research centres at Royston, Billingham and Stockton-on-Tees in the UK located close to some of our major businesses. Worldwide we have technical centres in many countries including the US, Japan, Sweden and the Netherlands.

Johnson Matthey Technology Centre

The Johnson Matthey Technology Centre (JMTC) is the group's central resource for longer term research and employs over 180 world class scientists. It supports the research and development of new products and technology across all of Johnson Matthey's businesses and has expertise in catalysis, precious metals, materials science and many other fields in which Johnson Matthey operates.

JMTC has state of the art facilities and resources for the development and testing of catalysts as well as one of the most advanced analytical science groups in the world, equipped with the latest tools for materials characterisation.

Collaboration is important and JMTC works closely with the group's global network of business specific technology centres and development groups. It also participates in external collaborative research and development programmes worldwide.

Many projects at JMTC are sponsored by the operating divisions to meet their longer term objectives alongside which run a number of core science projects to address the fundamental science that lies at the heart of many of our businesses. Our core science projects also address sustainability issues such as energy efficiency, waste reduction, resource thrifting and low carbon technology. These projects focus on improving the sustainability performance of our own operations and on developing the next generation of sustainable products and technologies for our customers. Knowledge gained in the core science programmes is used to accelerate and improve product development across the group, reducing time to market and improving our ability to design products to meet customers' needs.

Materials characterisation is a key component of all our R&D programmes. We have state of the art facilities and unique expertise in house as well as access to some of the world's most advanced equipment. These techniques provide us with an insight into the structure of materials at an atomic level which gives us the ability to relate the chemical structure of our products to their performance. This provides knowledge and information which is vital to the design and optimisation of new and enhanced products for our customers.

Three examples of how this approach is being used to deliver advanced new catalysts for the Environmental Technologies Division are outlined below.

Fischer Tropsch Chemistry at the Nano Scale

Fischer Tropsch (FT) catalysis is a key step in gas to liquids (GTL) processes and will be a key enabler in the conversion of coal and biomass to liquid fuels. Although FT catalysis was discovered nearly one hundred years ago, 21st century applications will require the design of catalysts with specific functionalities. Johnson Matthey has pioneered the use of advanced characterisation techniques to examine the structure of FT catalysts from micron scale catalyst particles right through to individual atoms at the nano scale.

Using our in house expertise and working in collaboration with world leading academic groups, Johnson Matthey has been able to fully characterise FT catalysts at the nano scale. This detailed understanding is enabling us to assist customers in the design of advanced FT catalyst systems with specific functionalities, tailored to their individual requirements.

Fuel Cell Catalyst Design

In fuel cell catalysts, the specific arrangement of surface and bulk atoms holds the key to optimising catalytic activity and selectivity. Determining the detailed structure of catalyst particles is therefore fundamental to developing the optimum fuel cell catalyst. Johnson Matthey has been working in collaboration with a number of academic partners to study the arrangement of atoms within individual fuel cell catalyst particles. Advanced techniques such as solid state nuclear magnetic resonance and x-ray absorption spectroscopy have been used to provide vital information about the arrangement of atoms and their nearest neighbours. In addition a specially designed fuel cell allows us to characterise catalysts in situ under realistic operating conditions. Scientific knowledge gained from these advanced techniques will enable Johnson Matthey to design and manufacture optimum fuel cell catalysts of the future.

Advanced Characterisation of Autocatalysts

Johnson Matthey's Emission Control Technologies business manufactures platinum group metal (pgm) containing catalyst systems to remove harmful pollutants from automotive exhausts. Catalysts must perform to meet legislated limits for exhaust emissions but must also have the durability and longevity to operate effectively under the harsh operating conditions of a vehicle.

Understanding how and why these catalysts deactivate over time is key to the manufacture of the next generation of highly active, highly durable products. Deactivation of the catalyst is usually due to a reduction in surface area of the active metal species caused by particle size enlargement. At JMTC we are using our characterisation expertise to examine the sizes of pgm nanoparticles in autocatalysts and the routes by which they intermix over time.

In our laboratories we subject catalysts to accelerated ageing and use a range of advanced techniques to characterise the aged materials. The data obtained enables us to examine and understand how metal particles aggregate over time. This in turn can be related to catalyst performance. Further developing our understanding of the relationship between metal particle aggregation and catalyst ageing enables us to design more effective products for our customers.

BUSINESS REVIEW

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's long term performance.

Technological Change and Patents

Much of the group's business is focused on selling products which are technologically advanced or employ technologically advanced processes in their manufacture. In most cases these products are subject to continuous improvement as new technology is developed. The group is exposed to the risk that if it does not keep up with changes in the market place its products will no longer be competitive. This is both a threat and an opportunity since Johnson Matthey can gain business as well as lose it. The group's strategy to meet this risk is to invest significantly in research and development to maintain or achieve leadership positions in those markets which offer sufficient added value to justify the long term investment required.

The group's results are also impacted by the status of patents. These include patents which the group itself registers and maintains, as well as the risks arising from new third party patents and the benefits that arise from the expiry of third party patents. All the group's divisions have significant registered intellectual property. The pharmaceutical materials businesses supply active pharmaceutical ingredients to generic manufacturers and can benefit when third party patents expire. If actual patent lives differ from the expectations of the relevant group business, such as by being extended or successfully challenged, this can affect the group's results. The group has established policies both to monitor its existing patent portfolio and those of third parties, taking appropriate action as necessary in respect of infringement.

Legislation

Much of the stimulus for the development and growth of Johnson Matthey's products arises from new legislation governing the environmental or health impact of its customers' products in different jurisdictions worldwide. This is most significant for Emission Control Technologies where historic and future growth depends on global tightening of emissions limits for on road and non road vehicles. Legislation is also relevant for some of the group's other businesses. Process Technologies and Fine Chemicals & Catalysts manufacture products to remove contaminants or to produce particularly pure chemicals. Colour Technologies is supported by legislation phasing out lead, cadmium and other heavy metals from glass and ceramic glazes. The development of the fuel cells industry is also impacted by clean air regulations and the drive towards zero emissions within both local and national legislation.

Whilst the group has benefited considerably from the development of such legislation its growth could be adversely affected if the pace of legislative change slowed significantly. Johnson Matthey monitors the development of legislation globally and coordinates its development work to ensure it can achieve greatest advantage from each new requirement. Regular reviews are undertaken at the business and group level to monitor growth and to investigate other areas of potential if legislation slows.

Global, Political and Economic Conditions

Johnson Matthey operates in over 30 countries around the world including several within Africa, Asia and Latin America. While benefiting from the opportunities and growth in these regions the group is exposed to the economic, political and business risks associated with such international operations. The group encounters different legal and regulatory requirements including those for taxation, environmental, operational and competitive matters. It is exposed to the effect of political risk which can include sudden changes in regulations, expropriation of assets, imposition of trade barriers and wage controls, limits on the export of currency and volatility of prices, taxes and currencies. The group is exposed to possible natural catastrophe risk, for example through major earthquake or flood, and possible terrorist action. Management monitor such risks, maintaining adequate insurance cover and amending business procedures as appropriate to mitigate any exposure while remaining in compliance with local and group requirements.

Environmental Liabilities

The environmental laws of various jurisdictions impose actual and potential obligations on the group to remediate contaminated sites, both those currently owned and, also in some cases, those which have been sold. Johnson Matthey's environmental policies are set out on the company's website at www.matthey.com. The group incurs costs annually in meeting these obligations and also maintains provisions for potential liabilities. If existing provisions are inadequate to cover any liabilities or the associated costs arising from environmental obligations this could materially impact the group's results.

Commercial Relationships

Johnson Matthey benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key customers or suppliers, or a significant worsening in commercial terms could have a material impact on the group's results.

Johnson Matthey devotes significant resources to supporting these relationships to ensure they continue to operate satisfactorily. From time to time the group undertakes surveys of customer satisfaction which are reviewed by the board. Some of the relationships are supported by long term contracts, notably the group's relationship with Anglo Platinum.



Heavy duty diesel catalyst manufacturing in the USA.



Platinum grain.

Foreign Exchange

Johnson Matthey operates globally with the majority of the group's operating profit earned outside the UK. It has significant investments outside the UK with the single largest investment being in the USA. As such the group is exposed to movements in exchange rates between sterling and other world currencies, particularly the US dollar, which could adversely or positively impact results. The group's policies for managing its foreign currency exposures are set out in more detail on pages 27 and 90.

Precious Metal Prices and Controls

A large proportion of the group's activities involve managing precious metals which have inherent risks associated with them in addition to bringing valuable business opportunities.

While the group could be vulnerable to a global disruption in the supply of platinum group metals, it has access to world markets for these metals and is not dependent on any one source for obtaining supplies for operations.

Precious metals have high prices which can fluctuate significantly and this can have a material impact on Johnson Matthey's results. The group's policies for managing this risk are set out in more detail on page 27. The high value of precious metals means that any process losses could be material and there remains the possibility of theft or fraud. Johnson Matthey has extensive experience in operating with precious metals and employs strict security, assay and other process controls and reviews to minimise any exposure. Policies are reviewed regularly by the Chief Executive's Committee and reported to the Audit Committee.

Pensions

The group's defined benefit pension funds are well funded with a net surplus at 31st March 2008 of £46.1 million. However, this position is exposed to the risk of changes in interest rates and the market values of investments as well as inflation and increasing longevity of the members. The assumptions used in calculating the funding position of the pension funds are shown in detail on pages 71 and 72. These risks are mitigated by paying appropriate contributions into the funds and through an investment asset allocation policy which has a high level of probability of avoiding a material deficit based on the results of an asset / liability matching study.

Customer Market Dynamics

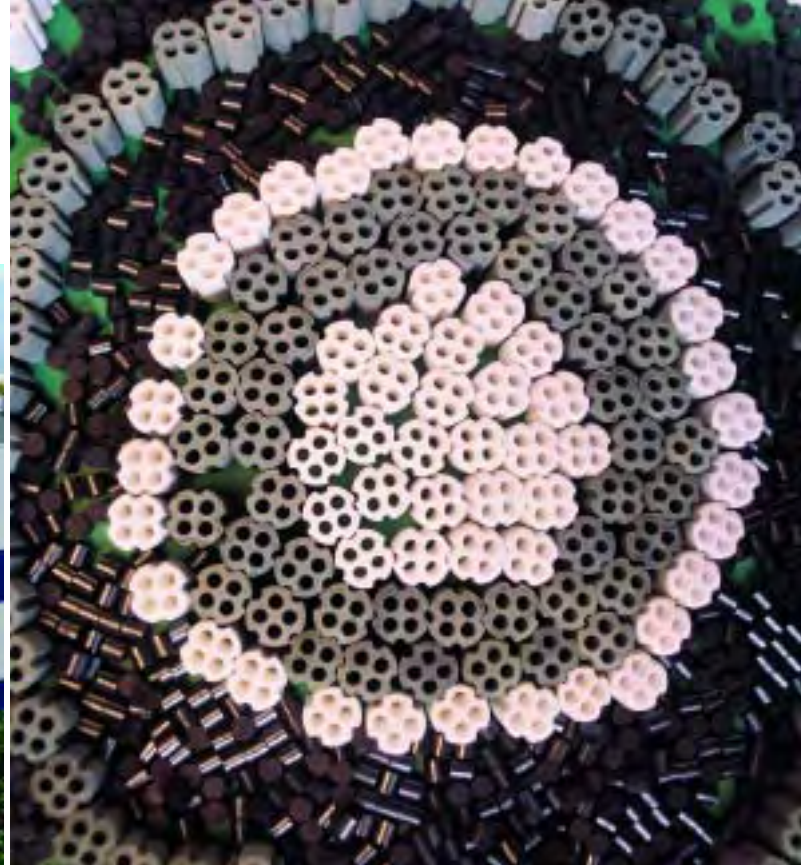
The group sells products to manufacturers who in turn use these products to serve a diverse range of end markets. The group's performance is therefore impacted by the dynamics of its customers' end markets and their performance within these markets. A significant loss of market share at or by a major automotive customer could negatively impact the group's results. The group also has exposure to the wider automotive sector as a whole which is served by a number of the group's divisions. While global car production levels have some effect on the sales of Johnson Matthey's products, other factors such as tightening emissions legislation and the increasing technical demands from catalysts play a more significant role.

Risks are mitigated by monitoring both industry developments and market share at customers to prevent the group from becoming unduly dependent on any single customer.

BUSINESS REVIEW



New autocatalyst manufacturing facility in Krasnoyarsk, Russian Federation.



Process catalysts.

Competitor Risk

The group operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the group's results. Johnson Matthey invests significant resources in research and development in order to ensure the introduction of both new products and improved production processes to allow the group to be at the forefront of its chosen markets. The group also continually works to streamline its cost base to ensure it remains competitive.

Litigation and Investigations

The group is subject to a broad range of laws, regulations and standards in each of the jurisdictions in which it operates. Failure to comply properly with these laws, regulations and standards could significantly damage the reputation and performance of Johnson Matthey.

Regular internal reviews are undertaken to assess compliance with local and group policies, and provisions are made to rectify or compensate for any breaches. In the ordinary course of business, Johnson Matthey is subject to inspections and monitoring by certain regulatory or enforcement bodies and by the quality departments of some of its major customers. If existing provisions are inadequate to cover any liabilities arising from such investigations this could materially impact the group's results.

Energy and Raw Materials

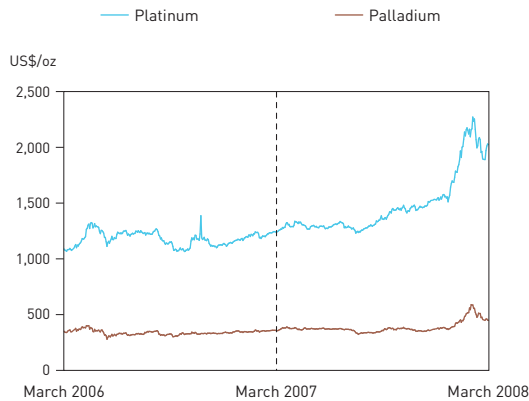
The group's products contain a broad array of raw materials and its operations require significant levels of energy, notably electricity and natural gas. Any increases or volatility in prices and any significant decrease in the availability of energy or raw materials could affect the group's results. Johnson Matthey coordinates its global purchasing activities to obtain the best possible prices and uses hedging and other contractual means where appropriate to minimise this risk and to benefit where possible. The high price of oil also benefits the group by stimulating demand for new catalysts and technologies supplied by Process Technologies.

Credit Risk

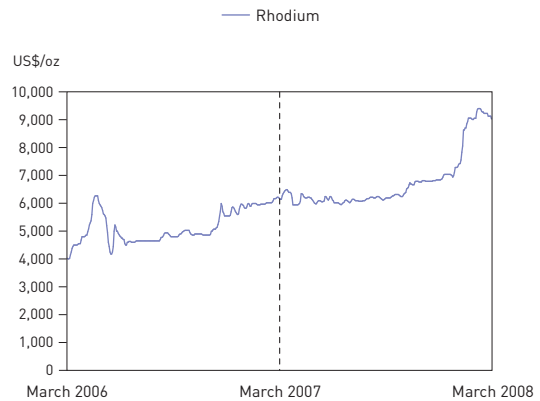
The group derives a significant proportion of its revenue from sales to major customers, particularly in Emission Control Technologies. Sales to individual customers are frequently high if the value of precious metals is included in the price. The failure of any such company to honour its debts could materially impact the group's results.

Johnson Matthey derives significant benefit from trading with its large customers and manages the risk at many levels. Each business and division has a credit committee that regularly monitors its exposure. The Audit Committee receives a report every six months that details all significant credit limits, amounts due and amounts overdue within the group and the relevant actions being taken. As at 31st March 2008, no single outstanding balance exceeded 2% of the group's market capitalisation. Further details of the group's credit control procedures are set out on page 89.

Platinum and Palladium Prices



Rhodium Price



Treasury Policies

Financial Risk Management and Treasury Policies

The group uses financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with its underlying business activities and the financing of those activities. The group does not undertake any trading activity in financial instruments. Our treasury department is run as a service centre rather than a profit centre.

Interest Rate Risk

At 31st March 2008 the group had net borrowings of £610.4 million. Some 30% of this debt was at fixed rates with an average interest rate of 5.20%. The remaining 70% of the group's net borrowings was funded on a floating rate basis. A 1% change in all interest rates would have a 1.6% impact on profit before tax and amortisation of acquired intangibles. This is within the range the board regards as acceptable.

Liquidity

The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. At 31st March 2008, the group had borrowings under committed bank facilities of £230.7 million. Total committed bank facilities amounted to £310.0 million of which £79.3 million was undrawn at 31st March 2008. To increase our headroom we have recently agreed a further £100 million long term loan facility from the European Investment Bank. The group also has a number of uncommitted facilities, including metal leases, and overdraft lines at its disposal.

The "credit crunch" and continued turbulence in the financial markets so far has had little direct impact on Johnson Matthey. We do not invest in risky financial instruments or

financial derivatives and the group's strong balance sheet and financial performance mean that all the normal credit markets are still open to us.

Foreign Currency Risk

Johnson Matthey's operations are located in over 30 countries, providing global coverage. The majority of its profits are earned outside the UK. In order to protect the group's sterling balance sheet and reduce cash flow risk the group has financed most of its investment in the USA, Europe, Japan and China by borrowing US dollars, euros, yen and renminbi respectively. Although an element of this funding is obtained by directly borrowing the relevant currency, a large part is achieved through currency swaps which can be more efficient and reduce costs and credit exposure. The group uses forward exchange contracts to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Currency options are occasionally used to hedge foreign exchange exposures, usually when the forecast receipt or payment amounts are uncertain. Details of the contracts outstanding on 31st March 2008 are shown on pages 86 and 87.

Precious Metal Prices

Fluctuations in precious metal prices can have a significant impact on Johnson Matthey's financial results. Our policy for all manufacturing businesses is to limit this exposure by hedging against future price changes where such hedging can be done at acceptable cost. The group does not take material exposures on metal trading.

All the group's stocks of gold and silver are fully hedged by leasing or forward sales. Currently the majority of the group's platinum stocks are unhedged because of the lack of liquidity in the platinum market.

BUSINESS REVIEW



Top Left: School children learn about catalyst manufacturing during a visit to Johnson Matthey's Billingham, UK facility.

Top Right: A zero emission hydrogen powered fuel cell bus.

Below: Emission control catalyst manufacturing at Johnson Matthey's new facility in South Korea.



Sustainability

For a number of years, Johnson Matthey has adopted the principles of corporate social responsibility (CSR), embedded these into its risk management processes and reported on its performance in this important area. In 2006/07 the Chief Executive launched an initiative to broaden the company's definition of these principles to ensure a more sustainable business for the future.

Sustainability is fundamentally about the best long term way to run a business. There is growing concern globally, including among our employees, our customers, our communities and others with whom we work closely, about the way countries, companies and people are using the world's resources. This is affecting people now in many ways and our decisions and actions today will affect future generations for a long time to come.

Work continued throughout 2007/08 and we have made considerable progress in a number of areas. In the early part of the year we considered the implications for sustainability through discussions at the company's management conference and a series of high level seminars across the group which sought to reach a consensus on how best to manage this emerging topic. The conclusions stemming from this work were reviewed and adopted by the Chief Executive's Committee (CEC) and gained the full support of the board.

One of the key conclusions is that sustainability should be fully embedded into our routine management processes and the CEC has agreed that this will apply from the 2008/09 budget year. It was also concluded that if we are to make solid progress we need to further refine our measures of performance, set more challenging targets and measure our achievement against these targets.

In December 2007, the Chief Executive launched Johnson Matthey's Sustainability 2017 Vision to all employees which sets out the group's aspirations for the next ten years. The full statement is available on the company's website at www.matthey.com and is presented in summary below:

- We are committed to the principles of sustainable development and strive for outstanding resource efficiency and carbon neutrality.
- We aim to further develop and enhance sustainability as a core competence and key driver of competitiveness for our business.
- We seek to encourage suppliers and customers to adopt the values of sustainability which we uphold.
- We will apply our expertise to the development of a new generation of sustainable products and services.
- We aim to more than double our earnings per share whilst achieving zero waste to landfill and halving key resources that we consume per unit output by 2017, our 200th anniversary.

The Sustainability 2017 Vision encompasses the commitments, aims and targets which will drive the business forward into its third century of operation. For Johnson Matthey, there are two key thrusts to the vision. The first is about being more efficient with the resources we use as a business and the second is about designing new products that help our customers to be more sustainable and competitive. Some of the ways in which we are working towards achieving the vision are presented in summary in this report.

Sustainability is a challenging area for business but also a very exciting one for Johnson Matthey. It presents an opportunity to improve the efficiency of our offices, internal operations and processes whilst also developing current and future products and services to meet the sustainability needs of our customers. There is a burgeoning market, in which we already participate, for products which benefit the environment. There is also a nascent market for a new generation of products which enable the more efficient use of materials and other resources. This represents a key opportunity for us. Our active participation in this emerging area also helps us to identify and manage the risks of sustainability.

Since the launch of the vision we have begun the process of embedding sustainability into every aspect of our business. From 2008/09 all businesses will be required to include their plans for sustainability as an integral part of the annual financial budgeting process. These plans were presented and discussed with management then agreed by the CEC at the budget discussions in February 2008.

We have also begun an extensive training programme for employees designed to help them put the Sustainability 2017 Vision into practice in their day-to-day work. The first session was held in March and workshops will continue in 2008/09.

During the next year, businesses will be working towards their plans and setting appropriate targets. We expect this process to evolve over a number of years and will be working very hard to refine our measures of performance so as to monitor our progress against the business level targets and group targets in the vision. Further work is aimed at developing the tools of sustainability including those necessary to better estimate the carbon intensity of our products and their complete life cycle.

We will continue to report on our plans, targets and performance in this area. As in previous years we will publish a separate more detailed report on-line during July 2008. This year's report will be our first Sustainability Report and will provide more detail on our vision for 2017, what sustainability means for us and how we will deliver this for our customers and society through better products and fewer impacts.

Managing Improvement and Compliance

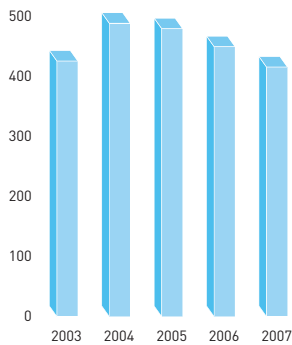
Johnson Matthey embraces a culture of continuous improvement in all aspects of sustainability. Continuous improvement is driven through corporate policies, a comprehensive management system and the commitment of our employees. Johnson Matthey has three key policy areas which provide the framework for the management of environmental, social and governance matters: Environment, Health and Safety (EHS); Employment; and Business Integrity and Ethics.

Our ethical, social and environmental policies are well established and over the last year further initiatives have been undertaken to improve our operational performance in these areas. Details of these policies, initiatives and our progress can be found in Johnson Matthey's Sustainability Report and are presented here in summary. The full report can be found on the company's website at www.matthey.com.

As outlined in the Corporate Governance section (page 42) the board has embedded environmental, social and governance matters into its risk management processes and formally reviews the area once a year. These matters are monitored by the CSR Compliance Committee which is a sub committee of the CEC. A description of the committee can be found on page 42.

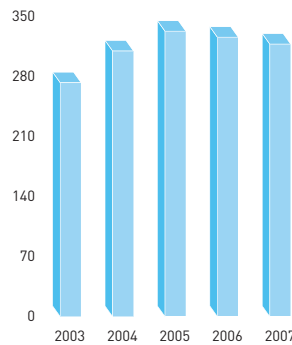
BUSINESS REVIEW

Total Acid Gas Emissions
Tonnes SO₂ equivalent



	Tonnes SO ₂ equivalent	Tonnes / £ million sales excluding precious metals
2003	426	0.4124
2004	489	0.4837
2005	480	0.4376
2006	450	0.3362
2007	416	0.2417

Total Global Warming Potential
Tonnes CO₂ equivalent ('000)



	Tonnes CO ₂ equivalent ('000)	Tonnes / £ million sales excluding precious metals
2003	273	264.3
2004	310	306.6
2005	333	303.6
2006	326	243.6
2007	318	184.8

Stakeholder Engagement

Johnson Matthey undertakes a wide range of engagement activities focused on communication with individuals and organisations who are impacted by its operations or who may impact on its business, both at corporate and divisional level. These include shareholders, fund managers, employees, customers, communities and national and international trade associations. The company plays an active role within the Chemical Industries Association (CIA) with representation on the CIA Council and other strategy boards. Johnson Matthey has also continued to play a leading advisory role through its participation in a number of sector trade associations and national and local government organisations. The company is also actively involved more broadly with other international trade and government bodies to inform the development of policy in areas where Johnson Matthey's technology and products can play a pivotal role, for example in improving air quality and enabling the shift towards more sustainable consumption and production. Neil Carson, Chief Executive of Johnson Matthey, chairs the UK government's Business Taskforce on Sustainable Consumption and Production and is a prominent member of the Corporate Leaders Group which has provided valuable suggestions to UK government and the European Commission on climate change issues. A number of the company's senior management are involved in the UK government's sustainability and climate change initiatives.

In addition to our work with the UK government, last October Neil Carson was invited to give testimony on Business Opportunities in a Low Carbon Economy in the US House of Representatives' Select Committee on Energy Independence and Global Warming. This was very well received and resulted in a number of follow up questions from members of the committee.

Further details of Johnson Matthey's stakeholder engagement activities can be found in the Sustainability Report on the company's website at www.matthey.com.

Environment, Health and Safety

Environmental, Health and Safety Policy Statement

The Chief Executive's Committee formulates and agrees a written policy statement which forms the basis of the group EHS management system. The board approves this policy statement which is signed by the Chief Executive and is available at each site throughout the group, as well as being published externally. This policy is presented in full in the Sustainability Report and on the company's website at www.matthey.com.

Environmental, Health and Safety Management

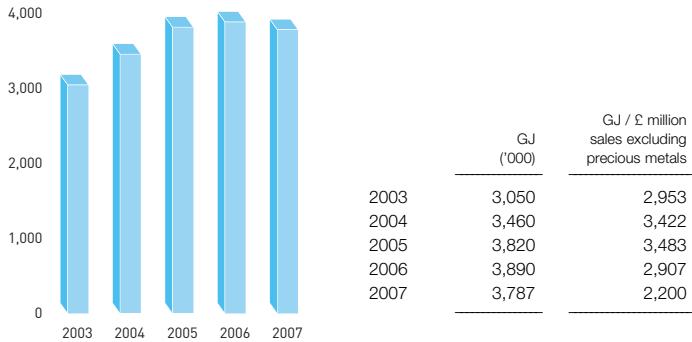
Johnson Matthey is firmly committed to managing its activities throughout the group so as to provide the highest level of protection to the environment and to safeguard the health and safety of its employees, customers and the community. Our EHS policies provide the guiding principles that ensure high standards are achieved at all sites around the world and are used to promote continuous improvement based on careful risk assessment and a comprehensive EHS management system.

The group EHS management system is reviewed regularly to ensure that it reflects international best practice and our growing understanding of the practical application of sustainable development.

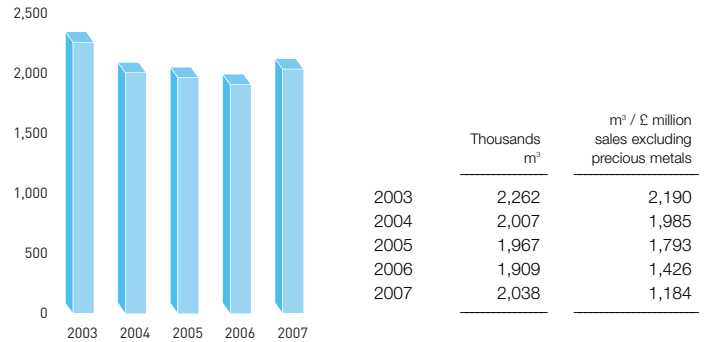
The corporate objectives, policies and group EHS management system define accountability and set the standards against which conformance audits are assessed. This system is available to all employees via the company intranet. All facilities have developed local policies to meet the requirements of these corporate policies.

EHS compliance audits are an integral part of Johnson Matthey's corporate EHS management system and are vital for the achievement of continuous improvement in all aspects of EHS. All Johnson Matthey operated manufacturing and research and development facilities are included in the audit programme. The audit frequency for each facility is determined by the scale, inherent risk and past performance of the operation.

Energy Consumption GJ ('000)



Water Consumption Thousands m³



Audits review conformance with the group EHS management system and compliance with national legislation, as well as providing an opportunity to share best environmental, health and safety practices.

The Group Occupational Physician undertakes business health management reviews to provide consulting advice to guide the prioritisation and planning of programmes to optimise workplace health protection and promote workforce sustainability. The final year of the three year programme to implement a revised corporate health management strategy throughout the business was completed successfully. All business units now undertake annual health management continuous improvement planning as a formal exercise to structure appropriate programmes and services that meet changing business needs.

All audit reports (including health management reviews) are reviewed by the CSR Compliance Committee and appropriate follow up is taken on any outstanding issues. A total of 42 detailed compliance audits were completed in 2007/08.

Accidents and incidents are investigated to gain shared learning and drive continuous EHS improvement. We also monitor relevant events in our industry sectors to derive additional learning and assurance that we are working to the highest standards and best practices. Following the publication of the investigation reports on the incidents at BP's Texas City refinery and at the Buncefield oil storage facility, we reviewed these reports with a view to integrating any relevant learning into our existing EHS management systems. The review generated a number of actions that will be completed during the next financial year.

ISO 14001

Over the past year continued progress has been made with the implementation of ISO 14001, in line with our target of achieving registration at all major manufacturing sites by 2010. Three manufacturing sites, two in India and one in South Korea, achieved ISO 14001 registration during the last year.

Regulation

The REACH regulation which introduces the new EU chemical management framework is now in force and Johnson Matthey has been preparing for its implementation since the final shape of the legislation became clear several years ago. This included establishing a centrally coordinated REACH compliance programme covering all of our operating units and products within the scope of the regulation. Key objectives of the programme are to assure uninterrupted product flows to customers and ensure our high rate of product innovation is not affected. To avoid unnecessary testing and reduce the cost and technical burden of compliance, the company is collaborating with other industrial companies under the auspices of key trade associations. Considerable effort has been made to maintain dialogue and information flow throughout the supply chain so that product and process materials and their uses are well characterised. Individual Johnson Matthey business units will be progressing substance pre-registration and registration actions in line with REACH timelines from June 2008 onwards.

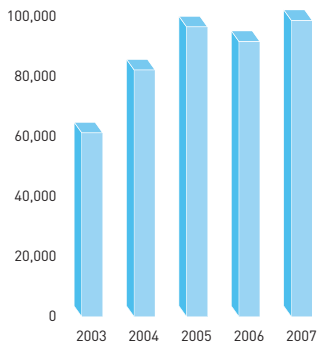
The company has also commenced its preparation for the anticipated widespread international rollout of the Globally Harmonised System for hazard classification of chemicals.

Training

Training is vital to ensuring continuous improvement in environmental, health and safety performance. A number of seminars on high priority health and safety topics were completed during the year across the group. A series of project management training courses have been completed in the US and Europe, in which facility managers and engineers were able to gain greater understanding and share best practice on how to improve the EHS aspects and impacts of significant development projects. This training will be extended to Asia during 2008/09.

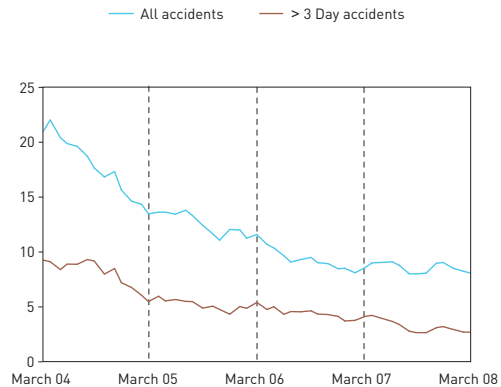
BUSINESS REVIEW

Total Waste
Tonnes waste



	Tonnes	Tonnes / £ million sales excluding precious metals
2003	61,284	59.33
2004	82,255	81.36
2005	96,638	88.10
2006	91,750	68.56
2007	98,764	57.39

Annual Accident Rate per 1,000 Employees



Environmental, Health and Safety Performance

Johnson Matthey undertakes a comprehensive annual review of group environmental performance covering all manufacturing and research and development facilities. Where necessary, past environmental data has been restated to reflect changes in the business, for example divestments and site closure. The group sold its Ceramics Division on 28th February 2007 and, as such, the data presented in this Sustainability section excludes any contribution from Ceramics Division.

All of the manufacturing facilities across the group made progress against their individual environmental improvement targets during the year and our five year performance is shown in the tables on pages 30 to 32. The group's total energy consumption and total global warming potential reduced by 3% and 2% respectively during the year. Relative to sales excluding precious metals, both decreased by 24% compared to the previous year. Total emissions of acid gas (primarily oxides of nitrogen, NOx) reduced by 8% in absolute terms and by 28% relative to sales excluding precious metals. The total amount of waste generated during the year increased by 8% across the group although relative to sales excluding precious metals, waste generated decreased by 16%. During the year, water consumption for the group increased by 7% as a direct result of increased production by our Emission Control Technologies business. When calculated relative to sales excluding precious metals, water consumption reduced by 17% across the group.

There is a group reporting system to record and investigate occupational illness incidents arising as a result of exposure to workplace health hazards. An overall reduction of more than 25% has been achieved in the annual incidence of occupational illnesses since the reporting scheme was introduced in 2005.

Accidents are actively monitored and detailed statistics are compiled monthly at group level. In April 2006 the CEC set a new group target of zero greater than three day accidents.

Our safety performance has improved during the past year with the incidence of greater than three day accidents at Johnson Matthey calculated as 2.65 per 1,000 employees in March 2008, a reduction of 39% from 4.38 reported in March 2007. The total

number of accidents that resulted in lost time was 68, an 11% reduction compared to the previous year (76, restated). During the same time period, the total accident rate reduced by 8% from 8.77 to 8.05 per 1,000 employees per year.

In 2007/08 the number of days lost per 1,000 employees per year was 68, a reduction of 12% compared with 2006/07. All accidents were thoroughly investigated to determine root causes and assign appropriate preventative and corrective actions.

On 27th July 2007 Avocado Research Chemicals Limited, a subsidiary of the company, was fined £600 and ordered to pay £100 costs after pleading guilty at the City of London Magistrates' Court to the unlawful exportation of a controlled chemical substance. Following the incident, the business has improved its automated ordering system and recruited a dangerous goods compliance specialist to prevent recurrence.

Environmental, Health and Safety Targets

Johnson Matthey continually monitors environmental, health and safety performance in order to identify those issues most pertinent to the business and to drive improvement.

Sustaining the continued reduction in the incidence of occupational illnesses, particularly those attributable to exposure to chemical hazards, remains the highest priority health protection issue for the business. Each business is now also addressing the development of health and wellness programmes to secure and enhance the longer term health, wellbeing and work ability of employees, as part of the people and communities element of the new corporate sustainability strategy.

All sites within the group will aim to continue to make progress against the target of zero greater than three day accidents. Leading and lagging indicators are now an integral component of site improvement plans in order to better monitor performance against these improvement conditions.

We will continue our process risk management review of Johnson Matthey facilities and analyse our results in conjunction with external experts to ensure that the policies, guidance and training that we develop are both robust and appropriate to those hazards within our business.

We will complete new environmental, health and safety guidance to support the existing policies within the group EHS management system. This guidance will be issued to all sites and appropriate training will follow.

Human Capital Management

Johnson Matthey's people are the group's most valuable resource. We are committed to recruiting high calibre employees and providing them with the information, training and working environment they need in order to perform at the highest standards. We encourage all our employees to develop to their maximum potential and we are committed to supporting them with effective human resources policies and practices that are strategically linked to the needs of our business and our customers.

Implementation of Johnson Matthey Human Resources Policies

Johnson Matthey's human resources policies are implemented through the corporate human resources standards which set requirements for operations throughout the group to follow. These standards, which are generally in advance of legal requirements, provide internal consistency and are supported either by detailed regional procedures and / or business unit procedures. All of these policies and procedures are subject to regular review to ensure that they continue to reflect both regional best practice and local legislation. Site specific human resources policies and procedures are communicated to staff at inductions and through staff handbooks. Human resources policies and risks are examined by the Chief Executive's Committee and the CSR Compliance Committee.

Key Employment Policies

Equal Opportunities

It is the policy of the group to recruit, train and develop employees who meet the requirements of the job, regardless of gender; ethnic origin, age, religion, sexual orientation or disability. The policy recognises that people with disabilities are often denied a fair chance at work because of misconceptions about their capabilities and seeks to enhance the opportunities available by attempting wherever possible to overcome obstacles, such as the need to modify equipment, restructure jobs or to improve access to premises, provided such action does not compromise health and safety standards. Equally, employees who become disabled are offered employment consistent with their capabilities. The business values the diversity of its people and employment applications are welcomed and encouraged from all sections of the community including minority groups.

Training and Development of People

The Management Development and Remuneration Committee of the board takes a special interest in ensuring compliance with the Training and Development of People Policy objectives to:

- Ensure highest standards in the recruitment of employees.
- Assess training needs in the light of job requirements.
- Ensure relevance of training and link with business goals.
- Employ and evaluate effective and efficient training methods.

- Promote from within, from high potential pools of talent.
- Understand employees' aspirations.
- Provide development opportunities to meet employees' potential and aspirations.

Johnson Matthey recognises the need to maintain its ability to recruit well qualified staff to support the development of the business in new and emerging markets. This challenge will be met through appropriate manpower planning, local recruitment and the encouragement of international mobility.

Cross divisional management development activities are coordinated worldwide to ensure longer term management succession and the retention of high potential employees. Included are programmes providing key skills, interactive learning and Johnson Matthey business awareness at career foundation, middle and senior manager levels. These are delivered at Johnson Matthey facilities throughout Europe, the USA and Asia to meet current and future management requirements worldwide and are being extended in number and variety to meet the growing needs of the business. Presentations from senior executives anchor these programmes to the company's progress and priorities and align attendees with our strategic intent.

A continuing high level of attendance by employees from Asia, particularly from our operations in Japan, China, Korea and India, reflects the increasing importance of this region. Attendance from acquired businesses is also encouraged as a well proven way of exposing individuals to the wider company culture and assisting rapid integration with the rest of the group.

Johnson Matthey has a steady requirement for high calibre graduate recruits to meet immediate technical and commercial job needs and for development to meet future management requirements. The combination of direct scientific contact with key university departments and a streamlined recruitment procedure ensures a reliable supply of high calibre applicants worldwide. A variety of career foundation training, including a new technology awareness programme, quickly engages new recruits in intellectual challenge and early responsibility.

Employee Relations and Communication

The quality of its employee relationships is a priority for Johnson Matthey. The company has a low voluntary staff turnover (7.6% in the calendar year 2007, see page 9) with many employees staying with the company for their whole careers.

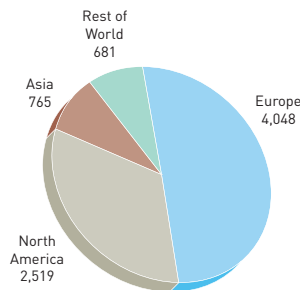
Johnson Matthey recognises the importance of effective employee communications and particularly the value of face to face dialogue. Information and comment is exchanged with employees through the company's in house magazine, regular news bulletins, presentations to staff and team briefings. Employees are also encouraged to access the company's intranet and website.

Johnson Matthey continues to maintain good and constructive relations with all recognised trade unions which collectively represent 34% of all group employees worldwide. From 12th to 25th September 2007, production was affected at the company's emission control catalyst plant in Germiston, South Africa by a 14 day national strike in the components industry, led by NUMSA (National Union of Metalworkers of South Africa). Other than this event no working time was lost within the group due to employee action.

BUSINESS REVIEW

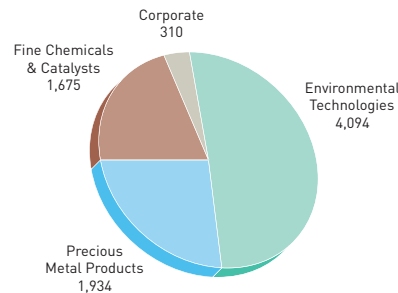
Total Employees by Region

Average headcount for calendar year 2007
(continuing businesses*)



Total Employees by Division

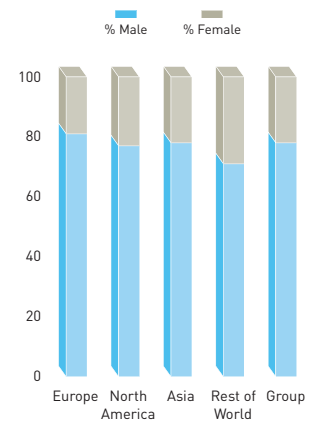
Average headcount for calendar year 2007
(continuing businesses*)



* Employee data relates to the calendar year 2007 and excludes 658 employees transferred out of the group with the completion of the sale of the Ceramics Division on 28th February 2007

Gender by Region

As at 31st December 2007



The company supports employee share ownership and where practicable offers employees the opportunity to participate in share ownership plans which provide the facility to purchase company shares with a company funded matching component. Employees in six countries worldwide are able to contribute to a company share ownership plan or a 401k approved savings investment plan. Through these ownership plans Johnson Matthey current and former employees collectively held 1.55% of the company's shares at 31st March 2008.

Johnson Matthey also sponsors pension plans for employees of its operations throughout the world. These pension plans are a mixture of defined benefit or defined contribution pension arrangements, savings schemes and provident funds designed to provide appropriate retirement benefits based on local laws, custom and market practice.

Activities over the Last Year

There have been a number of key initiatives at Johnson Matthey sites during the past year with a strong emphasis on sustainability, employee recognition, people development and wellbeing. Improvements to employee communications and engagement have continued to focus on the use of site satisfaction and attitude surveys as a means of strengthening and enhancing the two way dialogue with employees. Based on the success of a pilot survey, during the year a decision was taken to run a global employee attitude survey within each of the group's operating divisions on a rotational basis. The first global business to run the survey will be Emission Control Technologies. It will be conducted during the summer of 2008 using a confidential and independent survey administrator and a combination of web hosted and paper survey questionnaires. The results of the survey will be published and it is hoped that its findings will help to identify issues for action and guide management to build the optimum working environment for employees.

Cross divisional movement of employees as part of their career development is encouraged and monitored as an important part of the annual management development and succession planning review process. The further development

of the management skills inventory database provides the group with a powerful means of helping to identify and match suitably qualified internal candidates to promotional and development opportunities both cross divisionally and globally.

Continuing priority is given to manager and employee understanding of Johnson Matthey's policies and commitment to their implementation to maintain and enhance the reputation of the company. Appropriate compliance training for managers in their responsibilities for employees, commercial contracts and company assets has been maintained during the year through on-line learning programmes and seminars where appropriate.

The reduction in sickness absence rates across the business over the last three years has been sustained in the past year through continued focus on attendance management and rehabilitation support programmes. There has also been an increased investment in programmes to improve employee health and wellbeing and promote attendance and work performance.

Going forward, the commitment of Johnson Matthey's employees will be key in delivering our Sustainability 2017 Vision. During the year we have commenced a global programme of employee engagement activities and management seminars to enhance employees' understanding, promote local action and spread best practice across the group. This will continue in 2008/09 to support our employees in working towards achieving the vision.

Social and Ethical Matters

Business Integrity and Ethics

A reputation for integrity has been a cornerstone of Johnson Matthey's business since Percival Norton Johnson founded it in 1817. It gives customers the confidence that the company's products meet the standards claimed for them and that they may safely entrust their own precious metals to Johnson Matthey for processing and safe keeping. Employees at all levels are required to protect Johnson Matthey's reputation for integrity.

The company strives to maintain the highest standards of ethical conduct and corporate responsibility worldwide. All employees have a duty to follow the principles set out in Johnson Matthey's Business Integrity and Ethics Policy Statement which is presented here in summary and available in full on our website at www.matthey.com. It is the responsibility of directors and senior management to ensure that all employees who directly or indirectly report to them are fully aware of Johnson Matthey's policies and values in the conduct of the company's businesses. It is also the responsibility of directors and senior management to lead by example and to demonstrate the highest standards of integrity in carrying out their duties on behalf of the company. These issues are further safeguarded through corporate governance processes and monitoring by the board and sub-committees of the board.

Johnson Matthey facilities have established policies and procedures through which employees can raise employment related issues for meaningful consideration and resolution. In the US a confidential and secure website and telephone helpline was established in 2006 to give employees an additional means to raise any issue of personal concern. These confidential reporting arrangements have been extended to all Johnson Matthey employees worldwide during 2007.

Supply Chain

Management of the supply chain and contractor activities is a core component of the ISO 9000 and ISO 14000 series of standards. Supply chain and contractor management questionnaires are a requirement of achieving and maintaining registration and as such, ISO registered Johnson Matthey sites require the completion of appropriate questionnaires. For those sites without ISO registration, the group EHS management system provides policy and guidance on both supply chain management and contractor control.

Whilst we are confident of the human rights performance of our own operations we recognise that business practices in the supply chain are not always transparent and represent a risk that must be managed. We support the principles defined within the United Nations Universal Declaration of Human Rights and the International Labour Organisation Core Conventions including the conventions in relation to child labour, forced labour, non-discrimination, freedom of association and collective bargaining.

Community Engagement Activities

Johnson Matthey is actively involved in programmes worldwide that promote good community relations to foster a relationship of understanding, trust and credibility. Guidance on site requirements is detailed in the group EHS management system.

An annual review of community engagement activities across the group has been carried out and shows that 100% of Johnson Matthey operations with over 50 employees participate in activities within their local communities. These activities are wide ranging and include charitable giving, support for educational projects, the advancement of science and economic regeneration projects. Johnson Matthey employees also participate in activities or hold community related roles outside of the work environment. The company is supportive of this broader community engagement, allowing employees time off during working hours as appropriate. The review also

demonstrates that a higher proportion of sites are setting objectives for their community engagement activities and planning specific activities in their community programmes.

Sustainability issues are also important to the communities in which Johnson Matthey operates. As such, businesses are encouraged to integrate community elements into their sustainability plans for the coming year. We will continue to offer further support to sites in developing and implementing meaningful community programmes and facilitate the sharing of best practice across the group. A review of site community engagement activities will be conducted once again and we will continue to focus on how best to measure and improve the impact of our community involvement.

Charitable Programmes

Johnson Matthey's long history of support for charitable causes is matched today through programmes at both a group and a business unit level. The causes supported are aligned to issues to which the Johnson Matthey business makes a contribution and issues on which employees are passionate.

In 2007/08, Johnson Matthey supported 36 charitable causes through its corporate annual donations programme. These included support for organisations working in the areas of arts and the environment, medical and health, science and education and social welfare. 50% of these corporate donations were in support of social welfare causes. A total of 78 additional charitable causes received one-off donations through the corporate programme during the year.

In the UK, Johnson Matthey continues to operate its annual charity of the year programme and employee views are considered when deciding on the charity. EveryChild was chosen as our charity of the year for 2007/08 and further details on the partnership are available in the Sustainability Report. Johnson Matthey sites around the world also lend support to many other charities locally and nationally through donations, employee time or loans of company facilities.

In the financial year to 31st March 2008 Johnson Matthey donated £415,000 to charitable organisations. This figure only includes donations made by Johnson Matthey and does not include payroll giving, donations made by staff or employee time. The company made no political donations in the year.

We will continue to support a wide range of charitable causes in 2008/09. In particular we are developing a specific programme of support focused on promoting the understanding and awareness of science among children and young people. Johnson Matthey believes that encouraging the next generation of scientists is very important to the sustainability of our industry and we will continue to contribute our resources and expertise.

Verification

The board, Audit Committee, Chief Executive's Committee and CSR Compliance Committee review sustainability issues as part of the company's risk management processes. The board believes that the internal measures taken to review the sustainability information provide a high level of confidence. However, for the first time, third party verification of our full Sustainability Report has been commissioned. The full Sustainability Report will be published on the company's website at www.matthey.com in July 2008.